Stakeholder Comments Template

Submitted by	Company	Date Submitted
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Please use this template to provide your written comments on the stakeholder initiative "RMR and CPM Enhancements."

Submit comments to initiativecomments@caiso.com

Comments are due February 22, 2019 by 5:00pm

The January 23, 2019 draft final proposal and the presentation discussed during the January 30, 2019 stakeholder conference call can be found on the following webpage: http://www.caiso.com/informed/Pages/StakeholderProcesses/Review_ReliabilityMust-Run_CapacityProcurementMechanism.aspx.

Please use this template to provide your written comments on the items listed below and any additional comments that you wish to provide.

1. Comments on January 23, 2019 draft final proposal.

RMR and CPM

a. Provide notice to stakeholders of resource retirements

Comments: The Six Cities support this element of the proposal.

b. Clarify use of RMR versus CPM procurement

Comments: The Six Cities are generally supportive of the concept of using the RMR framework to address resource retirements and to use the CPM for backstopping the Resource Adequacy program and Exceptional Dispatches, subject to their comments below on specific elements of the Draft Final Proposal.

The Six Cities note that stakeholders have raised concerns regarding the potential use of mothballing notifications to engage in price discovery, facilitate cherry-picking of compensation structures, or engage in inappropriate "toggling" between multiple procurement regimes. At a minimum, the CAISO should commit to closely monitoring both retirement and mothballing notifications and should investigate (including, if necessary, requesting supporting information regarding the underlying economics of the resource) and refer to FERC any such notifications that appear to be materially inaccurate or undertaken for improper purposes.

c. Explore whether Risk of Retirement CPM and RMR procurement can be merged into one mechanism

Comments: The Six Cities have no comments on this aspect of the proposal.

RMR

d. Develop an interim pro forma RMR agreement

Comments: The Six Cities understand that this step has been completed.

e. Consider making RMR resources subject to a must offer obligation

Comments: The Six Cities continue to support application of a must offer obligation and the proposed parameters around bidding and crediting of market rents, subject to their comments below on the use of the RAAIM as an enforcement mechanism.

f. Consider making RMR resources subject to the Resource Adequacy Availability Incentive Mechanism

Comments: Based on the comment summary included in the Draft Final Proposal, it appears that there is little support among stakeholders for application of the RAAIM as the enforcement mechanism for RMR resources. The Six Cities concur with the CAISO that the must offer obligation that is being newly established for RMR resources should be accompanied by a reasonable enforcement mechanism to ensure that the RMR resources are actually providing the services for which they are being compensated. However, as has been previously discussed, the current RAAIM does not appear to be aligned with the nature and purpose of RMR procurement or compensation and the associated 24X7 must offer obligation. Return of the capacity payments associated with any period of non-performance would appear to be more consistent with the RMR structure, subject to reasonable accommodations to permit resources to take planned outages. In addition, the Six Cities question whether substitution, as is permitted under RAAIM, is realistically available for RMR resources. It is the Cities' understanding that RMR designations will be made only when the CAISO concludes that a specific resource contemplating retirement is needed to maintain reliability. In light of the resource-specific nature of the need determination, it seems unlikely that substitute capacity would be available for an RMR resource designated to provide any type of needed capacity, but particularly those procured for local needs.

g. Consider whether RMR Condition 1 and 2 options are needed

Comments: The CAISO's proposal to eliminate Condition 1 is reasonable.

h. Update rate of return for RMR compensation

Comments: The CAISO's proposal to require resource owners to support a proposed rate of return in their cost of service filings to FERC is reasonable.

i. Align pro forma RMR agreement with RMR tariff authority that provides ability to designate for system and flexible needs

Comments: The Six Cities support the CAISO's proposal to designate resources for system and flexible needs and continue to believe that all attributes of an RMR resource should be procured. With respect to designations that are for the specific purpose of addressing a system or flexible need, the CAISO should delineate the criteria it will use to determine whether RMR procurement of a specific resource is necessary and appropriate, and the results of the CAISO's assessments supporting RMR designations for system and flexible needs should be transparent to stakeholders.

Although the Six Cities would have preferred that this policy change have been more specifically addressed in earlier versions of the CAISO's proposals, the Six Cities do not oppose the proposal for cost allocation based on "Option 3" in the Draft Final Proposal, which provides for allocation of local RMR procurement costs to LSEs in the relevant TAC area(s) and for allocation of system and flexible procurement costs among all LSEs based on their pro rata share of actual load during a month.

However, as a result of this change, the CAISO proposes to remove the roles and responsibilities of the Responsible Utility from the RMR agreement. The Six Cities question whether there should continue to be some representation of the interests of the load-serving entities that will ultimately pay the costs of the RMR procurement in the process for negotiating specific terms and costs within the RMR agreement before it is filed at FERC. The Six Cities are concerned that the CAISO and the RMR resource owner may pre-agree to the recovery of certain costs or the inclusion of certain commitments in the RMR agreement prior to any LSE review, which may undermine the ability of LSEs to challenge those costs or commitments at FERC.

j. Allocate flexible Resource Adequacy credits from RMR designations

Comments: The Six Cities support this aspect of the CAISO's proposal. The Six Cities request that the CAISO clarify that the proposed allocation of flexible RA credits will align with the cost allocation for the RMR procurement described in item i above.

k. Streamline and automate RMR settlement process

Comments: The Six Cities have no additional comments on this aspect of the CAISO's proposal, subject to their comments provided elsewhere regarding substantive aspects of the CAISO's proposal.

l. Lower banking costs associated with RMR invoicing

Comments: The Six Cities have no comments on this aspect of the CAISO's proposal.

CPM

m. Change CPM pricing formula for resources that file at the Federal Energy Commission for a CPM price above the soft-offer cap price because the current methodology provides for full cost of service cost recovery plus retention of all market revenues

Comments: The Six Cities continue to be concerned about this aspect of the CAISO's proposal. Although the Six Cities do not oppose changing the methodology for resources seeking recovery above the level of the soft offer cap from full cost of service to going forward fixed costs, retention of market revenues while also recovering going forward fixed costs and a 20% adder appears to result in excessive revenues. This presents a concern particularly for annual CPM designations.

If the CAISO proceeds with its concept of filing alternate proposals at FERC, then the Six Cities urge the CAISO to consider filing its alternative proposal (i.e., going forward fixed costs with retention of market revenues, but no adder) as its primary proposal. As the Department of Market Monitoring has pointed out, it is not clear that the Commission would require the same level of adder for resources filing above the soft cap as is embedded in the soft cap. In particular, a resource filing for costs above the soft cap would necessarily be proposing costs that are resource specific, but development of the soft offer cap itself needed to encompass the circumstances of multiple potential resources. It is not a foregone conclusion that FERC would require or even permit a resource filing for resource-specific costs to receive the same 20% adder as is included the soft offer cap.

Additionally, stakeholders have raised continued concerns regarding the potential for a lack of sufficient competition to discipline CPM pricing at and below the soft offer cap within the context of an annual CPM. These concerns could be addressed by implementation of criteria for identification of market power. If application of the criteria indicate that a resource has market power, the pricing for an annual CPM should be based on the resource's cost of service, consistent with the methodology for RMR compensation.

Finally, it may help to evaluate the potential impacts of various approaches to CPM pricing for the CAISO to provide examples of circumstances when the CAISO would elect to issue a CPM for an entire year, as oppose to exercising its discretion to make shorter designations.

n. Evaluate if load serving entities have been using CPM for their primary capacity procurement

Comments: The CAISO's proposed resolution of this issue appears to be reasonable.

o. Clarify deadline for ISO to post CPM designation report

Comments: The Six Cities have no comments on this aspect of the Draft Final Proposal.

2. Other Comments

Please provide any additional comments not associated with the items listed above.

Comments: The Six Cities have no further comments at this time.