California ISO

Stakeholder Comments Template

Capacity Procurement Mechanism Soft Offer Cap

This template has been created for submission of stakeholder comments on Capacity Procurement Mechanism (CPM) Soft Offer Cap that was published on July 24, 2019*.* The straw proposal, stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at: http://www.caiso.com/informed/Pages/StakeholderProcesses/CapacityProcurementMechanismSoft-OfferCap.aspx

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on August 20, 2019.

Submitted by	Organization	Date Submitted
Carrie Bentley *916-306-0754*	*Western Power Trading Forum*	*August 20, 2019*

Please provide your organization's comments on the following issues and questions.

1. Maintain the CPM soft offer cap

Please provide your organization's feedback on this topic as described in section 5.1 of the straw proposal. Please explain your rationale and include examples if applicable.

Please indicate any analysis and data review that your organization believes would be helpful to review on this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

The Western Power Trading Forum (WPTF) does not support maintaining the current soft offer cap price of $6.31/kW-month without additional supporting analysis on current bilateral RA prices. When the CAISO filed the original design in 2011, the reasonableness of the soft offer cap was predicated on the demonstration of two facts;

- Premise 1: The soft offer cap allows "sufficient recovery of fixed costs plus return on capital to facilitate incremental upgrades and improvements by resources"[1], and
- Premise 2: The soft offer cap represents the "high end of the range of current resource adequacy prices" so that it does "not create incentives for load-serving entities to forego bilateral resource adequacy contracts, and instead, rely on the CPM backstop procurement".[2]

WPTF believes that CAISO demonstration of both these facts are again necessary to develop a just and reasonable backstop capacity mechanism structure and safe-harbor threshold. Thus far, the CAISO seems to have focused on premise 1 above, but WPTF asserts that both are necessary for a reasonable and workable backstop program.

FERC has long acknowledged the role that market conditions play in having a workable backstop. In fact they rejected the CAISO's initial interim CPM filing in part due to a concern that "the continuation of a fixed going-forward cost has not been shown to be just and reasonable because of the likelihood that market conditions, which can affect the price of capacity, will fluctuate over time."[3]

It is incredibly challenging for the CAISO, CPUC, and stakeholders to get an accurate picture of bilateral RA pricing. But regardless of the challenge it is imperative that the soft-offer cap remain at the high end of bilateral contracts. Otherwise it may act as a de facto cap on RA prices and push procurement into the backstop mechanism. The CPUC is also considering explicitly linking their waiver price to the CPM price. If this occurs, it will put even more pressure on the soft offer cap to be set at a goldilocks level, where it is not too low to push forward procurement into the backstop market, but also not too high such that it no longer ameliorates market power concerns.

The risks to reliability are grave if the CAISO gets this wrong. In September 2019 the CAISO is relying on over 7,000 MW of RA imports to maintain reliability. Recent studies indicate closer to 10,000 MW will be needed in 2022 to maintain reliability. As capacity across the WECC tightens, $6.31/kW-month quickly will be insufficient to attract the needed capacity to serve California, especially as the CAISO and CPUC tighten the obligations on both market and RA imports.

2. Changes to 12-month CPM designations

Please provide your organization's feedback on this topic as described in 5.3 of the straw proposal. Please explain your rationale and include examples if applicable.

Please indicate any analysis and data review that your organization believes would be helpful to review on this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

[1] October 2015 CPM Order, 153 FERC ¶ 61,001 at 29.
[2] Ibid
[3] March 2011 CPM Order, 134 FERC ¶ 61,211 at P 58

WPTF supports the CAISO examining the impact of their annual CPM designation proposal more closely. It is WPTF's assumption that annual CPM designations are unlikely ever to pass a three-pivotal supplier test. This was also the CAISO's inherent assumption when designing the current CPM mechanism, which is why a soft-offer cap was chosen that was both reflective of reasonable fixed costs plus return and bilateral market pricing. WPTF believes that imposing an RMR-style contract on annual CPM designations will likely result in the following:

- **Increased incentives for newer resources to refuse contracts in the primary bilateral market for an amount less than their full cost of service plus a return.** Generally, older resources are mostly depreciated and have a lower cost of service compared to new resources. While this is not always true, generally speaking an existing resource that is 11-years old will have a much higher cost of service compared to a 31-year old resource of the same general technology type. This will likely increase ratepayer costs as resources will be incented to "cherry pick" between the bilateral and backstop markets. At a minimum this is likely to put upward pressure on bilateral RA prices.
- **Increased ratepayer costs from paying cost of service for the entire resource when only a partial deficiency exists.** Currently while many resources have a strong preference for "all or nothing" RA contracts, partial RA contracts are still very common. In the future, if a resource knows it even partially is needed in a local area, it may prefer to enter into the backstop market where the entire plant is guaranteed to be under contract, rather than receive a partial contract in the bilateral market. Oddly the proposal will incent certain resources to leave a bilateral market where it is hard to exert market to instead enter into a backstop market where they would have market power. This seem inefficient. And again, at a minimum, will put upward pressure on bilateral RA prices.
- **Unintended Consequences.** One unintended consequence that seems somewhat foreseeable is issues with how the CAISO would evaluate the annual offers and ensure the lowest cost resource was actually awarded the CPM designation. Would resources have to prepare an RMR-style offer in anticipation of failing the three-pivotal supplier test? Would the CAISO choose a resource based on this offer or their non-competitive offer? What if the RMR calculation ended up with total costs that were actually higher than the resources non-competitive offer?
- **Increased transaction costs.** It is much more time and resource intensive for the CAISO, designated resource, and stakeholders to participate in an RMR-type negotiation than simply accept and evaluate an offer.

Additional comments

Please offer any other feedback your organization would like to provide on the straw proposal for the CPM Soft Offer Cap initiative.

WPTF does not support section 5.4 as written but is also unsure we fully understand the proposal. Page 19 of the paper states,

“In addition to this proposal, the ISO proposes to include a separate sheet when filing at FERC that will allow resources to only have compensation equal to going forward fixed costs – without the 20% cost adder – and retention of market rents.”

It appears the CAISO is proposing something that the FERC has continually rejected – the recovery of fixed costs without opportunity for return on capital for upgrades or improvements. WPTF does not support this as written and asks for additional clarification on the CAISO proposal.