Stakeholder Comments Template

Submitted by	Company	Date Submitted
Nora Sheriff Alcantar & Kahl, LLP (415) 421-4143 Barbara Barkovich and Sarita Sarvate Barkovich & Yap, Inc. (707) 937-6203	For the California Large Energy Consumers Association (CLECA)	6-6-2017

Please use this template to provide your written comments on the stakeholder initiative "Capacity Procurement Mechanism Risk-of-Retirement ("CPM ROR") Process Enhancements."

Submit comments to InitiativeComments@CAISO.com

Comments are due June 1, 2017 by 5:00pm

The Issue Paper posted on May 10, 2017 and the presentations discussed during the May 18 and 25, 2017 working group meetings can be found on the CPM ROR webpage.

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

1. Problem Statement and Scope of Initiative

Please provide any comments on the problem statement and scope of this initiative.

Comments:

The CAISO's Risk of Retirement CPM initiative seems to be designed for a situation in which a resource does not have a Resource Adequacy (RA) contract for the next year but the CAISO deems the resource to be necessary for reliability in the following year. The current CPM tariff only allows a resource that is currently not under RA contract to request a CPM designation. The CAISO states that this requirement limits the scope of the resources that can apply. The CAISO cites the example of two Calpine units, which were under RA contracts till the end of

2017. The earliest the units could have applied for CPM designations for the year 2019 would have been on October 31, 2017, when RA allocations for the year 2018 would have been announced. But Calpine wanted to know by March 2017 as to whether the plants would be procured or not. The CAISO states that this timing issue is the reason it is seeking to modify its CPM process for a Risk of Retirement designation.

Thus, the CAISO's problem statement seems to be as follows: **The CAISO will offer a Risk of Retirement CPM designation to a plant which is under contract for the current RA year (e.g. 2017) but is certain not to be procured for the following RA year (e.g. 2018) and therefore qualifies for a Risk of Retirement CPM designation for the year following the year in which it does not have an RA contract (e.g. 2019). Moreover, the CAISO wants to grant such designation not when the RA designations for the following year (e.g. 2018) are announced, i.e., on Oct 31 of the current RA year, but in March of the current RA year (e.g. 2017).**

The problem statement, viewed thus, immediately raises a whole host of questions. (1) How can the generator or the CAISO know with certainty that the unit *will not* qualify for RA in the following year (e.g. 2019)? (2) Moreover, how can the unit's future status be known with certainty nearly two years in advance, namely in March of the current RA year (e.g. 2017)? **(3) How will the CAISO establish a determination of need in that future year?** (4) What if more than one plant seeks such a designation? (5) Will the CAISO grant the Risk of Retirement CPM designation on a first-come first-served basis or will it have to conduct analyses of all such requests simultaneously in order to determine which plants are most qualified to meet any future need based on ramping capability, flexibility, cost, etc.? (6) Even after conducting analyses for local, system, and flexible RA, how will the CAISO determine how many such plants will be needed? (7) If the RA analyses are thorough and there is sufficient procurement, shouldn't the RA resources be able to meet all of the CAISO's reliability needs? (8) Since, with migration to Community Choice Aggregation (CCA), as well as with increasing levels of energy efficiency, the load is trending downward in the future, what are the chances that a fossil fuel plant without an RA contract will be needed in the future under the circumstances that the CAISO has described? (9) Will the CAISO be bypassing the RA process if it offers CPM designations *before* RA allocations are announced?

During two full days of workshops conducted by the CAISO, stakeholders raised and debated these questions. However, at the conclusion of the two days, the stakeholders participating in the CAISO initiative seemed to be at an impasse. It is not clear to CLECA, therefore, if the problem statement is the correct one. Conversely, if the problem statement is the correct one, then the CAISO needs to support it with an explanation of how it will determine future need and detailed analyses of that need so that stakeholders can clearly see situations in which bypassing the RA program through this initiative is not only necessary but is essential.

2. Identified Issues

Please provide any comments on the issues that have been identified thus far in the initiative, including if there are other issues that you would like to identify.

Comments:

In its May 10, 2017 Issue Paper titled "Capacity Procurement Mechanism Risk of Retirement Process Enhancements," the CAISO identified the following six issues:

(1) Who/When Can Apply
(2) Timing
(3) Deadline
(4) Selecting from Competing Resources
(5) Decision to Accept
(6) Forward Need Determination

CLECA notes that the above list does not include some of the most important issues that have arisen with regard to this initiative. They are:
(1) A detailed explanation of how the analysis of need will be performed,
(2) Consideration of cost and pricing,
(3) Consistency and coordination with the CPUC's RA program, and
(4) Coordination and correspondence with other CAISO and regulatory initiatives such as the CAISO's ongoing Flexible Resource Adequacy Criteria and Must Offer Obligation Phase-2 (FRACMOO-2) process, its recently announced initiative on Temporary Suspension of Resource Operations, the CPUC's Integrated Resource Planning (IRP) proceeding, the Transmission Planning Process, and the California Energy Commission's (CEC's) recent joint hearing with the CPUC on the issue of Risk of Retirement. There are also other regulatory considerations such as the planned retirement of Once Through Cooling (OTC) plants as well as the expected decision on the proposed retirement of PG&E's Diablo Canyon Nuclear Power Plant. In addition, there are pending regional initiatives such as the proposed regionalization of RA and the potential for meeting the State's flexible capacity needs through imports, particularly with hydropower.

As the CPUC's Energy Division (ED) pointed out during the stakeholder processes held on May 18 and May 25, 2017, the scenario that the CAISO has laid out for its Risk of Retirement CPM may result in "front stop", not backstop procurement, which is problematic. As several stakeholders pointed out, the solution might be the development of a multi-year RA program. But as several other parties countered, the acceleration of the CCA movement (as well as increasing energy efficiency and distributed generation) and the migration of load are resulting in a decline in some LSEs' electric demand, making multi-year procurement riskier. Stakeholders also suggested that there are other regulatory processes currently in the offing which need to be considered first.

As for the most important issue of need, during the workshop ED asked the CAISO to outline a scenario in which a resource was not needed in the first year but would be needed in the second year. The response was that there was no such scenario because the load was going down. When pressed further, the CAISO suggested that it might need an electric generation unit for a sub-area or for voltage support but provided no data or other evidence for that assertion.

Another key issue – price - was raised repeatedly during the workshop. Several participants pointed out that the current situation of oversupply of electric generation was resulting in negative prices. This is why many generators were considering retiring their units or mothballing them. In response, other participants wondered if the CAISO was attempting to generate revenues for the endangered plants it thinks it may need to retain.

CLECA is concerned about the possibility that resources might be acquired that are not actually needed, increasing costs for ratepayers unnecessarily.

SCE pointed out that the State's goal is zero thermal resources, which contradicts the idea of keeping so many fossil resources online. CLECA agrees that it is not necessary to retain fossil resources that are not needed for flexibility. If the CAISO does need to retain some fossil resources for flexible capacity, it is important for the CAISO to develop a Durable Flexible Capacity Product expeditiously.

Other parties pointed out that the CAISO could perhaps expand its Transmission Planning Process and do the study of resource needs in that forum rather than doing a special study for each resource seeking a Risk of Retirement CPM. As mentioned above, CLECA believes that the CAISO needs to coordinate with several ongoing initiatives rather than working in isolation.

The IRP proceeding is expected to develop a preferred long-term resource plan for much of the retail load in California. In fact, the CAISO has cited the IRP as a justification for not developing its Durable Flexible Capacity product, which the stakeholders have been awaiting for quite some time. Yet, it appears that the CAISO is now bypassing the IRP and other regulatory processes through the development of this initiative, which will enable it to acquire fossil fuel capacity in the short to medium term.

In place of such an ad hoc and stopgap measure, a holistic approach is needed for electric procurement in the State. Such a high-level holistic approach would include a consideration of and coordination with other related activities in the State such as the FRAC-MOO process, the regionalization initiative, the need to make market and software changes so that imports can be procured for flexibility, the RA proceeding, the Transmission Planning Process, and the IRP, as mentioned above. Such a high-level approach would also consider one of the most important variables that could influence the electric generation needs in California, namely electrification of the transportation sector.

Which entity is capable of the above task is not clear. What is clear is that the CAISO seems to lack the analytical tools for performing such analyses, as evidenced by the fact that the CAISO has repeatedly stated that it does not possess the modeling capability necessary to analyze its flexible capacity needs in detail.

Such coordinated analyses and modeling are crucial in deciding which power plants should be contracted for capacity in California. The IRP proceeding may well be the correct place to look at medium-term needs of the electric grid, since the IRP is already designed to coordinate with various ongoing proceedings to consider the State's electric demand while optimizing its Green House Gas (GHG) goals with reliability, flexibility and ratepayer costs. The IRP was created specifically to ensure coordination between various initiatives at the CPUC and the CEC.

Other Comments

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

Comments:

The Risk of Retirement CPM initiative appears at an impasse. In support of the initiative, the CAISO provided only one example of two Calpine units which needed a Risk of Retirement CPM designation. Due to the absence of an appropriate process for designation of resources currently under an RA contract, the CAISO resorted to using the Reliability Must Run (RMR) designation for the units. We do not know how many other resources may seek risk of retirement treatment in the future or, in the absence of a clear methodology, how the CAISO will decide whether such resources are needed. CLECA believes that the CAISO should exhaust the regulatory avenues available to it, such as the RA proceeding and the IRP, to acquire the resources it needs for operating the grid reliably before bypassing these regulatory processes and acquiring capacity on, as ED labeled it, "a front stop" basis. In fact, CLECA wonders if, by procuring capacity two years in advance through this initiative, the CAISO is by default developing its own multi-year RA process without identifying it as such. We recommend that the CAISO develop its analytical and modeling capabilities, through consultants if necessary, in order to provide stakeholders with a fact-based rationale for procurement of fossil resources outside the RA process.