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 "Review of RMR and CPM."

Submit comments to initiativecomments@caiso.com

Comments are due April 10, 2018 by 5:00pm

The Draft Final Proposal for Phase 1 Items and Items under Consideration for Phase 2 that was posted on March 13, 2018 and the presentation discussed during the March 20, 2018 stakeholder meeting 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 phase 1 draft final proposal to make RMR units subject to a must-offer obligation.

Please indicate whether you support the draft final proposal. If you oppose the draft final proposal, please indicate the reasons for your opposition.

Comments:

CLECA supports the CAISO's proposal to make reliability must-run (RMR)-designated resources subject to a must-offer obligation as part of Phase 1. This is a comparable obligation to the must-offer requirements associated with units procured under the Resource Adequacy (RA) program and the capacity procurement mechanism (CPM) utilized by the CAISO. If customers are paying a resource to be available, then the resource should provide its capacity in the market. Without the must-offer obligation, supply from these units would be withheld, which does not contribute to an efficient market. This must-offer obligation is supported by all load serving entities, the CAISO's own Department of Market Monitoring, and the California Public Utilities Commission in their comments submitted to the prior draft.[1] The only parties that object are certain resource owners, which have failed to provide sufficient justification as to why there should be no must-offer. At the stakeholder meeting, some of the resource representatives expressed concern that if an RMR unit would operate more than it has historically then it could result in unrecovered costs. This does not make sense for two reasons. First, any variable costs should be included in its energy bid, which would allow for variable cost recovery if the unit is dispatched. Second, the RMR contract has provisions to recover costs for unplanned repairs and unplanned capital items.[2] Therefore, there is no reason not to make RMR resources subject to a must-offer obligation.

There is one additional issue that can and should be resolved in Phase 1, which is the issue of RMR or CPM resources providing flexibility. To the extent the RMR and CPM resources provide flexible capacity, their effective flexible capacity should be part of the must-offer requirement, and count against the flexible capacity requirement allocated to load serving entities as recommended by the CPUC.[3] RMR units under Condition 2 receive a cost of service contract which has provisions to recover existing costs plus possible future costs; thus, there should be cost recovery for all attributes that the unit can provide.[4] Therefore, concerns that the Condition 2 RMR contract never envisioned provision of flexible capacity and that there

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[1] SCE, PG&E, Six Cities, CPUC, CPUC's ORA. PG&E did not object, but requested the CAISO provide additional details to describe how it will implement the use plan that identifies and preserves the specific hours for RMR dispatch operation while requiring market participation during other periods. (PG&E Comments page 4.)
[2] See 7.5 and 7.6 in the Pro Forma Reliability Must-Run Contract.
[3] CPUC comments submitted on February 28, 2018, at page 2.
[4] Condition 1 RMR contracts allow resources to keep market revenues, so there is an adjustment to the capacity payment. Thus, to the extent offering flexible capacity increases costs not embedded into the contract, that can be included in the bid and the cost recovered.

could be unrecovered costs are unjustified. If customers are paying cost of service for the unit to be available, then they should receive all the attributes the unit can provide. This should be included as a Phase 1 issue, and any adjustments can be made in Phase 2 during the more detailed review of the RMR contract.

2. <u>Comments on phase 1 draft final proposal for ISO to provide notification to stakeholders that a resource is planning to retire.</u>

Please indicate whether you support the draft final proposal. If you oppose the draft final proposal, please indicate the reasons for your opposition.

Comments:

CLECA supports the proposal that the CAISO provide a market notice that it has received a notification that a resource may retire. This will provide more transparency to determine if the resource is needed for reliability and allow the market to present alternatives, if they exist, before the resource is offered a risk of retirement contract by the CAISO.

3. <u>Comments on potential phase 2 items.</u>

Section 8 of the March 13, 2018 paper discusses the items that may be candidates for phase 2 of this initiative. It includes items suggested by both the ISO and stakeholders. The ISO requests that stakeholders comment on the priorities for these potential phase 2 items.

Comments:

CLECA ranks the Phase 2 items with the following priority:

1. Work with the CPUC to develop a schedule or other mechanism that could avoid a collective deficiency and appropriately address the cost allocation for such a deficiency in the context of load migration.

   In the annual RA showings for compliance year 2018, the CAISO determined that there was a collective deficiency in the RA portfolios presented to it for meeting local RA requirements. This led the CAISO to sign contracts with several units under its backstop Capacity Procurement Mechanism (CPM). CLECA, and other parties, have stated their concerns over the process which has resulted in procurement in excess of the total RA MW required, which in turn, creates excess costs which are passed onto customers.[5] CLECA understands coordination with the CPUC is complex and CLECA urges the CAISO to work to find a solution in this Phase 2 process and/or the CPUC's RA process that

[5] CLECA comments submitted on February 20, 2018.

facilitates the procurement of RA resources that fully cover local RA needs without backstop procurement.

The cost recovery of collective deficiency is a problem when there is load migration to community choice aggregators (CCA). The current CAISO tariff in Sections 43.8.3 and 40.3.2 allocates the costs based upon an LSE's proportionate share of the TAC Area load at the time of the annual peak demand forecast for the next RA compliance year. To the extent load migrates to another LSE, it is unjust and unreasonable for one LSE to pay for the reliability for another LSE. Phase 2 should examine the issue of cost allocation due to load migration in coordination with the CPUC's RA proceeding.

2. Any flexible capacity value from RMR and CPM units should be allocated to LSEs.

   Customers are paying for the resources, so they are entitled to all capacity and ancillary services value. This includes flexible capacity attributes. Participants should receive an allocation of their effective flexible capacity. If possible, this should be resolved as a Phase 1 issue.

3. Revise the terms of RMR for today's RA process and clarify when RMR and CPM are used.

   The RMR contract was designed at the formation of the CAISO when certain units were needed for local reliability, but the IOUs were not able to sign long-term contracts and market power mitigation rules were being developed. Today there is an RA program, so parties can sign long-term contracts for local reliability and market power mitigation rules are more robust. It is time to modify the terms of the RMR contracts to meet current conditions. In addition, greater clarity is needed as to when and under what circumstances RMR vs. CPM is utilized. This is necessary to determine what capital costs are recovered under each contract type. (See next section for more discussion.)

   CAISO plans to use the penalties for non-performance in the RMR agreement to incent performance as opposed to the using the Resource Adequacy Availability Incentive Mechanism (RAAIM).[6] The RMR contract has no penalties if the unit notifies the CAISO of a forced outage, whereas RA units are subject to RAAIM which does have a penalty for poor availability performance. This difference could lead resources to favor RMR due to less stringent performance standards. Thus, CLECA is concerned that use of the penalties for non-performance in the RMR agreement is insufficient and recommends the CAISO further consider this issue in the Phase 2 process.

[6] CAISO proposal at page 17.

4. Rate of return values for RMR or CPM should be the same and be updated as the cost of capital changes.

    The cost of capital changes over time, and it should be updated as in any cost of service contract. To the extent CPM needs a cost of service rate of return, it should be the same as RMR. (At this time CLECA is not endorsing a cost of service rate of return in a CPM contract, as the merit still needs to be reviewed.) Otherwise there is an incentive for parties try and get the more lucrative contract.

5. Allocation of RMR or CPM when the local need spans across TAC Areas, such as LA Basin and San Diego.

4. Other Comments

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

Comments:

CLECA objects to the following items in either Phase 1 or 2:

A. It is unnecessary to expand authority to use RMR or CPM for flexibility need and renewable integration because it is not a local capacity requirement nor is it necessary for renewable integration.

    The RA process includes a requirement to acquire system capacity, local capacity, and flexible capacity, but there is no requirement for local flexible capacity. So far there has been no indication that LSEs are not procuring enough flexible capacity for the CAISO to manage flexibility needs or renewable integration. Furthermore, the CAISO is in the process of addressing flexibility requirements in the Flexible Resource Adequacy Must-Offer Obligation 2 and Day-ahead Market Enhancements initiatives. In addition, there are other mechanisms being developed to manage renewable integration such as demand response, load shift programs, increased storage, integrated storage with Solar PV, and time of use pricing changes. It is not necessary for the CAISO to procure resources for this purpose via the RMR or CPM mechanisms. The CAISO can reconsider this if the situation changes.

B. Aligning the CPM and RMR recovery of capital cost or capital additions needs careful review and should be done after better defining the use of the two contracts.

    While it may make sense to have consistent terms between CPM and RMR, there may be justified differences for the treatment of capital cost recovery. For example, for the CPM associated with risk of retirement, it is not clear that existing capital costs should be able to be recovered, other than going forward fixed costs. This issue is being litigated at FERC[7] The RMR contract was designed to be an ongoing cost of service contract for critical units because at the formation of the CAISO, IOUs were not allowed to sign long-term contracts. Today, the limitation on long-term contracts no longer exists. Does it make sense for what should be short-term contracts to include full cost recovery of existing capacity and ongoing capital costs? Certainly, the CPM and RMR contracts should not be so lucrative that resources use them as a fallback if they fail to negotiate a bi-lateral deal.

[7] The CPM for units associated with risk of retirement is pending at the FERC in docket ER18-641