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 "Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements."

Submit comments to InitiativeComments@CAISO.com

Comments are due October 4, 2017 by 5:00pm

The Draft Final Proposal posted on September 13, 2017 and the presentations discussed during the September 20, 2017 stakeholder conference call can be found on the CPM ROR Website.

Please use this template to provide your written comments on the Draft Final Proposal and any additional comments that you wish to provide.

1. Please indicate whether you support the Draft Final Proposal.

Comments:

Cogentrix Energy Power Management, LLC (Cogentrix) appreciates the opportunity to comment on the Draft Final Proposal of the enhancements to the Capacity Procurement Mechanism (CPM) – Risk of Retirement backstop provisions. Cogentrix welcomes this CAISO initiative which is intended to give more flexibility to generators and streamline the process for seeking a Risk of Retirement (ROR) designation. We support the proposal overall, however, there are two areas where the proposal falls short of the stakeholder process objectives.

2. Please provide any additional comments.

Comments:

The two areas where the Draft Final Proposal falls short are: 1) backstop procurement based on cost rather than the current market-based rates, and 2) the soft cap numbers derived from the CPUC 2016 RA Report.

First, while this proposal has backstop compensation utilizing a cost-based price, FERC has only approved market-based rates for backstop compensation to date. Sec 43A.2.6 (g) of the draft tariff language states the following:

> "The price paid to a resource receiving a CPM risk of retirement designation will be a resource-specific, cost-based price, based on net plant investment at the time the CPM designation commences, calculated based on the formula set forth in Section 43A.4.1.1.1, and as determined by FERC as prudent, just, and reasonable."[1]

The Federal Energy Regulatory Commission (FERC) has opined on the subject of cost-based vs. market-based backstop procurement from the order approving amendments to the CAISO CPM Mechanism in Docket No. ER15-1783-000 issued October 1, 2015 effective the first quarter 2016.

> "In the March 2011 CPM Order, the Commission conditionally accepted and suspended for a nominal period CAISO's proposed CPM compensation methodology subject to refund. The Commission found that CAISO had failed to justify the proposed $55/kW-year price, which was based on the going-forward costs of a reference unit plus a 10 percent adder, and found that further assessment of the use of going-forward costs as a basis for CPM compensation was necessary. Specifically, the Commission found that CAISO's proposal may "create the potential for distorted pricing signals and deny resources a reasonable opportunity to recover fixed costs." <u>Further, the Commission expressed 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."[2]</u>

> "We find that CAISO's proposal to replace its administratively priced CPM with a competitive solicitation process is a just and reasonable approach to meeting CAISO's operational needs and providing appropriate compensation to needed resources. <u>We find that compensating CPM capacity based on the results of a competitive solicitation process will result in compensation driven by competitive factors and, therefore, will</u>

[1] CAISO Capacity Procurement Mechanism, Risk of Retirement, Draft Final Proposal, September 13, 2017, Pg. 31

[2] FERC Order on Tariff Revisions, Docket No. ER15-1783-000, October 1, 2015, Pg. 2, Emphasis added.

appropriately reflect both changing market conditions and corresponding fluctuations in capacity prices.[3]

It remains unclear if the current FERC commissioners will be willing to approve any move away from market-based approach at this time.

Second, the Draft Final Proposal relies upon the CPUC's 2016 RA Report for the soft cap to be used as a trigger for obtaining a Type #2 ROR designation. The current proposal states that in order to get a Type #2 designation one of the criteria is that a generator has to attest that their fixed operating cost are above the soft cap. Cogentrix has commented in other venues regarding the CPUC's 2016 RA Report. The data can be easily misinterpreted when taken at face value. First, the report represents aggregated prices from 2016-2020, rather than marginal prices realizable in today's market, with long-term RA contract values embedded in the average. The marginal RA contract, however, is for one year only in the current environment. The data could be misinterpreted as representing the current (or at least recent) RA market, which it does not. Second, there is no insight as to annual price trends in the data. Finally, the data does not represent what generators receive on an actual capacity basis. The weighted average price for all RA sales reported by the CPUC is $3.10/kW-mo. It does not include RA that generators are unable to sell, which would substantially reduce the average price. This is important because partial sale of capacity results in a must-offer obligation that can be in excess of the volume of RA sold, often times substantially greater. Load servers, in effect, receive this capacity for free.

Also, based on Cogentrix's knowledge of comparable generation facilities, we suspect that the annual fixed costs of many existing generation facilities is below the $50.28/kw-year floor required to apply for a CPM as a resource in a local capacity area. As such, a revised CPM mechanism with this requirement is unlikely to mitigate the need for CAISO to exercise its RMR authority in most instances of potential retirement of modern generation facilities, Metcalf as no exception, as Calpine would likely be precluded from filing for a Type 2 CPM ROR.

The expedited ROR designation process that is being sought under this proposal will not come to fruition unless these two issues are addressed. Again Cogentrix appreciates the CAISO initiative on this and will continue to work with staff and other stakeholders to reach mutually beneficial solutions.

[3] FERC Order on Tariff Revisions, Docket No. ER15-1783-000, October 1, 2015, Pg. 13, Emphasis added.