

Stakeholder Comments Template

Revised May 30, 2017

| 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 (“CPM ROR”) Process Enhancements.”

Submit comments to InitiativeComments@CAISO.com

Comments are due June 6, 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:

Diamond Generating Corporation (“DGC”) agrees that a core problem is the timing element and when resources will know whether they have a RA procurement. Related problems are more CPUC LTPP/IRP regulatory design-related than a Tariff structure problem insofar as there is no path for competition across existing gas capacity resources for follow-on contracts before existing contracts expire, putting owners in a difficult position relative to maintaining ongoing availability to CAISO after the current contracts expires.

In the “hybrid market structure” that the CPUC has adopted, it is the non-utility owned generation (which is a majority of system and local capacity) that is subject to the follow-on contracting problem. Existing utility-owned generation which is not subject to a contract term does not have to compete in the market to maintain viability. Moreover, the CAISO markets historically have not been sufficiently compensatory to support existing generation. With the addition of significant levels of zero fuel-cost generation, market clearing energy prices in many hours would not support variable O&M costs for existing, dispatchable capacity. These background challenges should be identified in the issues statement.

Problem Statement and Scope of Initiative should also note a RA process design problem whereby LSEs subject to RA procurement obligation can meet the procurement rule, but CAISO will still end up with a supply sufficiency problem because not enough MWs with sufficient “effectiveness” are procured for specific local areas (sometimes referred to as a collective deficiency).

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:

DGC agrees with the identified issues, but believes that the “Forward Need Determination” should be meshed with the “deadline” issue where there is expected to be a significant quantity of MWs at risk of retiring within a general two-year window. As mentioned earlier, there is no clear path for re-contracting existing dispatchable resources that will be coming off of existing PPAs, and current regulatory processes are unlikely to be completed in time to avoid going without a contract committing their capacity to CAISO under the RA structure. Asset owners should have the ability to voluntarily self-identify what capacity will be at risk of retirement or mothballing if not contracted in time, with the CPM backstop method to be a means of CAISO assuring availability of those resources that are determined to be needed.

Additionally, because the larger system is in a state of signification transition with increasing levels of intermittent generation coming online to provide RPS-eligible MWhs (while the RA counting rules for such resources will be resulting in lower NQCs for those additions), while at the same time more BTM generation is occurring and retail rates for residential customers will be moving to TOU structures, it may be prudent for CAISO to anticipate a need to see more flexibility out of the existing fleet of gas resources—particularly if policies will be limiting the likelihood of any new gas resources in the future. Maintenance of some existing resources with important locational attributes will be critical to system reliability as the system adapts to a less carbon-intensive generating fleet.

3. Potential Enhancements

Please provide any comments on the potential enhancements that were listed on slides 19, 20 and 21 of the slide presentation for the May 25, 2017 working group meeting.

Comments:

DCG supports the ability of a resource to seek risk-of-retirement CMP status if the owner is anticipating that no follow-on RA contract will be secured. See prior comments about no likely path for existing resource re-contracting out of the CPUC LTPP/IRP before a significant portion of capacity will be off contract.

The timeline must be fixed so that assets without RA commitments are not required to maintain availability when they do not have a RA MOO. If the CAISO markets are not sufficiently compensatory to cover an assets costs to maintain availability, then there must be a relaxation of the obligation to remain available without forcing PGA termination where and existing asset may be seeking a subsequent RA contract with related MOOs, or undertake other actions at the site within a reasonable time period. Arguably, assets without RA contracts are not receiving the compensation contemplated by GO 167 OS 24. Moreover, it is not apparent that a non-utility asset owner facing a change to long-term status is required to secure CPUC approval prior to the change in status. To avoid these issues in the absence of a regularized process to recontract with existing dispatchable capacity resources, there should be a forward application mechanism in cases where the end of the contract term is imminent.

The term of a CMP contract should be the balance of the RA contracting year, presuming that there is a process in place for existing capacity resources to compete for a re-contracting opportunity, preferably under a multi-year term contract that includes RA, or at minimum, another RA compliance year.

On the attestation issue, DGC would recommend that the attestation focus on suspending resource availability (i.e., mothballing), rather than full decommissioning. Rather than requiring full retirement and decommissioning, the test should simply turn on the expected non-availability for the current RA compliance year. This may provide the type of flexibility around potential asset sales or other changes at the existing site, such as collocation of other technologies desirable to the system as it decarbonizes and sees major shifts in resource utilization.

4. Other Comments

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

Comments:

DGC believes that a combination of creating a regularized process for re-contracting existing dispatchable gas resources in conjunction with a risk-of-retirement CPM and the Temporary

Suspension of Resource Operations mechanism to suspend availability pending the next contracting opportunity will be an important structural change. Serious market condition changes have happened since RA and the MOO were first developed, and now the system is faced with a need to provide a rational mechanism for capacity retirements that relies on competition across existing resources to maintain a prudent level of dispatchable capacity for reliability purposes.