

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
“RMR and CPM Enhancements.”

Submit comments to initiativecomments@caiso.com

Comments are due January 10, 2019 by 5:00pm

The December 12, 2018 second revised straw proposal and the presentation discussed during the December 20, 2018 stakeholder conference call 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 December 12, 2018 second revised straw proposal.

RMR and CPM

- a. Provide notice to stakeholders of resource retirements

Comments: No comment.

- b. Clarify use of RMR versus CPM procurement

Comments: The CAISO’s proposal to not designate a unit as RMR until the September Board meeting – which could happen late in September - leaves inadequate time for the RMR owner to prepare the complex and extensive cost-of-service filing required by the RMR contract by the end of October.

- c. Explore whether Risk of Retirement CPM and RMR procurement can be merged into one mechanism

Comments: No comment.

RMR

- d. Develop an interim pro forma RMR agreement

Comments: Given the significantly changed nature of the RMR contract, NRG still believes the CAISO should throw out the *pro forma* RMR contract, which was developed for a totally different purpose than for what the CAISO now intends to use the RMR contract, and develop a new *pro forma* agreement. With regards to Table 3, NRG is concerned with the CAISO's proposal to throw out Schedule C and rely on the bid cost recovery process to guarantee recovery of fuel costs. NRG had to expend significant cost and effort to file at FERC to recover unrecovered fuel costs in 2018 and objects to subjecting the RMR owner to that risk – a risk that could be greatly magnified by the CAISO's proposal to submit the RMR unit to a full-time cost-based MOO (which NRG opposes; see below).

- e. Make RMR resources subject to a must offer obligation

Comments: The RMR contract was developed to allow the CAISO to dispatch cost-based energy from a generating resource when that resource's energy was required to address a local reliability need. The RMR contract had an implicit MOO, as the CAISO could dispatch the RMR resource *to maintain local reliability* even if the resource had not bid into the CAISO's energy market. The CAISO is now proposing to fundamentally change the purpose of the RMR contract from a means to access cost-based energy *when that energy is needed to maintain local reliability* to a means of compelling a unit that would otherwise retire to provide *full-time, cost-based 24x7 resource adequacy service*. The most likely scenario that would result in a unit receiving an RMR contract remains that the CAISO needs that unit to maintain local reliability under a limited set of operating conditions, yet the unit that is designated as RMR under those conditions will now, under the CAISO's proposal, be compelled to provide cost-based offers at all times, not just when it is needed for local reliability. This expansion of required cost-mitigated offering and service from a unit that is likely needed only for local reliability under certain conditions is a concern.

The CAISO's proposal for a full-time, cost-based MOO creates a host of issues, especially when coupled with the CAISO's proposal to remove the availability provisions from the RMR contract and subject the RMR unit to RAIM. A unit that is forced to offer at cost

at all times may now run far more frequently than it has run in recent times; how will the CAISO compensate that unit for the additional wear and tear and forced outage risk it will incur? If the RMR unit is use-limited, will the CAISO's cost-based offer include appropriate opportunity costs to properly ration the use of the unit so that it will remain available when it is needed for the purpose for which it was designated as RMR? Will the CAISO's cost-based offer cost include the *real* price at which the RMR owner must procure fuel for the unit, or will the RMR owner be required to file at FERC to recover unrecovered gas costs on top of the cost-of-service filing they were compelled to make because their unit was designated as RMR?

NRG opposes the CAISO's proposal for a full-time cost-based MOO. Such a proposal is likely inconsistent with the reason why the unit was designated as RMR in the first place (e.g., a local reliability need that exists under some, but not all, conditions). NRG has no problem with the unit providing cost-based energy when that energy is needed for local reliability, though the CAISO's energy market local market mitigation should take care of that without the need to enforce a full-time cost-based MOO. It's one thing for a unit owner that voluntarily signs an RA contract to take on that full-time MOO. It's another thing to force that full-time cost-based MOO on a unit that would otherwise retire.

RMR was never intended to be an RA surrogate; if the CAISO is now making RMR an RA surrogate, it needs to carefully re-think how MOO aligns with all the other provisions of the RMR contract (like service limits). Along with all the other provisions that have to be updated, it's critical for the CAISO to get the gas price in the MOO right (the CAISO markets still don't successfully flange up with the gas markets, and, and subjecting RMR owner to another FERC filing to recover costs they incur because of that misalignment is unreasonable.

- f. Consider making RMR resources subject to the Resource Adequacy Availability Incentive Mechanism

Comments: The CAISO, in the RA Enhancements initiative, is proposing to overhaul the RAAIM. In the RA Enhancements Straw Proposal (Part I), the CAISO notes that it plans to provide "...a holistic proposal for RAAIM, outage substitution rules, and RA valuations." (December 20 Straw Proposal Part 1 at page 11). The current availability provisions in the RMR contract account for a unit's forced outage history and expected planned outages; the current RAAIM provisions do not. Eliminating the RMR contract availability provisions and subjecting RMR units to RAAIM would be a highly controversial move, even knowing what the structure of RAAIM is right now. Eliminating the availability provisions and subjecting the RMR unit to RAAIM when the

CAISO and market participants have no idea what RAAIM will look like going forward, and won't know for many months, is unacceptably speculative. For this reason alone, NRG respectfully urges the CAISO to delay the CPM-RMR process so the consideration of transitioning RMR units to RAAIM can be synched up with the "holistic" redesign of RAAIM.

- g. Consider whether RMR Condition 1 and 2 options are needed

Comments: It is difficult to make such a judgment in isolation; the viability of keeping or dropping either Condition will depend on how many other things in this (and other initiatives) turn out.

- h. Update rate of return for RMR compensation

Comments: NRG does not object to the CAISO proposal for the RMR owner to develop and justify its own rate of return.

- i. Align pro forma RMR agreement with RMR tariff authority that provides ability to designate for system and flexible needs

Comments: NRG does not object to the expanded rationale for designating RMR (to address system and flexible capacity shortfalls). NRG *does* object to imposing a cost-based MOO on the RMR unit at times when there are no expected system or capacity shortfalls. The nature of the MOO should be consistent with the reason for the RMR designation.

- j. Allocate flexible Resource Adequacy credits from RMR designations

Comments: No comment.

- k. Streamline and automate RMR settlement process

Comments: No comment. NRG appreciates that the CAISO clarifying that streamlining the RMR settlement process would not subject RMR units to market risks they would not otherwise have (such as the risk of being allocated a share of a market default.)

- l. Lower banking costs associated with RMR invoicing

Comments: No comment.

CPM

- m. Change CPM pricing formula for resources that file at FERC for a CPM price above the soft-offer cap price

Comments: NRG has no comment on this issue now.

- n. Evaluate if load serving entities are using CPM for their primary capacity procurement

Comments: NRG does not object to the CAISO dropping this from the scope of the initiative.

2. Other Comments

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

Comments: NRG closes by reiterating two paragraphs from FERC’s April 12, 2018 order on the CPM Risk-Of-Retirement amendment, ER18-641 (California Independent System Operator Corporation, 163 FERC ¶ 61,023 (2018) (NRG’s emphasis):

47. We recognize CAISO’s statement that “risk of retirement of resources needed for reliability remains a significant concern... as the number of resources subject to the [renewable portfolio standard] increase, market prices decrease, and the revenues necessary to cover the fixed costs of existing generation resources decline.”⁵² **However, the issue of front-running the resource adequacy program is inextricably linked to issues of risk of retirement CPM compensation, the RMR program, and resource adequacy procurement in CAISO in general. The interrelated nature of these issues demonstrates the importance of CAISO’s efforts in this area and the need to evaluate the fundamental reliability and market factors associated with resource adequacy as a whole.**

48. **Given the importance of these issues, we strongly encourage CAISO and stakeholders to make progress in the ongoing stakeholder process and to adopt a holistic, rather than piecemeal, approach.** We believe that this should include: (1) revisiting the issue of the adequacy of CPM and RMR compensation; (2) evaluating whether both risk of retirement CPM and RMR need to be retained as separate backstop mechanisms; (3) examining the timeline and eligibility requirements for issuing risk of retirement CPM designations and how those factors may impact bilateral resource adequacy procurement; and (4) evaluating measures that would trigger the review of its backstop procurement if it appears to be overused.

The CAISO can best ensure that it is addressing these interrelated issues in a “holistic” fashion by synching up the CPM-RMR process with the RA Enhancements process.