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 August 7, 2018 by 5:00pm

The June 26, 2018 Straw Proposal and the presentation discussed during the July 11, 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 June 26, 2018 straw proposal.

RMR and CPM

a. Provide notification to stakeholders when a resource informs ISO it is retiring

Comments: NRG does not oppose what the CAISO has implemented on this issue.

b. Clarify when RMR procurement is used versus CPM procurement

Comments: The CAISO’s rationale for retaining both RMR (as the risk of retirement mechanism) and CPM (as a short-term backstop mechanism) seems appropriate. NRG believes that the CAISO underestimates the complexity involved in turning the RMR contract into a means to take RA-equivalent service from units at risk of retirement.

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

Comments: As aptly noted by Constellation's representative at the July 11 meeting, retaining two mechanisms creates the possibility for market participants to arbitrage the two mechanisms absent clear protocols indicating which mechanism is to be used for which situation. While it would ideal to have a single CAISO backstop mechanism, not two, the CAISO has made a credible case for retaining two backstop mechanisms due to the different situations in which they would be applied. The rules for which mechanism should be used in which circumstance must be clearly specified and adhered to.

d. Evaluate compensation paid for RMR and CPM services

Comments: As NRG understand, the CAISO has proposed to retain a full cost-of-service (COS) rate and crediting back of net market revenues for the RMR contract (assuming Condition 2 as the default), which NRG supports. (NRG does not support the proposal for a full-time *cost-based* offer obligation for RMR units, as noted elsewhere in these comments.) The CAISO has also proposed to retain the option for Condition 1, which would pay a portion of the COS rate but allow the market participant to keep all net market revenues; NRG also supports this.

With regards to CPM compensation, the CAISO has proposed that if a unit required compensation above the soft offer cap ($6.31/kW-month), it could file at FERC for such a rate but would be limited to recovering its going-forward fixed costs (GFFC) plus a 20% adder (mirroring how the CAISO determines the soft-offer cap using a duct-fired CCGT). Under the CAISO's proposal, a unit whose compensation is limited to its GFFC plus 20% would be able to retain net market revenues.

The quantity of the CPM designation must factor into any consideration of whether the CAISO's proposal is reasonable. The CAISO has the authority to issue a CPM designation to a generating unit for a quantity of capacity that could be as small as the unit's minimum load amount. In that case, the CPM unit may require a per-MW level of cost support for the designated CPM amount that is higher than either the per-MW rate that would be set by the unit's GFFC or even by the unit's full COS. Perhaps the CAISO's presumption is that if the unit requires a level of cost support that requires the owner to file at FERC, such a unit should be put under an RMR contract, in which case the discussion about limiting cost recovery to the GFFC rate is moot. In any case, NRG requests that the CAISO clarify its proposal by discussing how the designation quantity factors into this issue.

RMR

e. Develop interim pro forma RMR agreement, i.e., change termination and re-designation provisions

Comments: NRG does not oppose the CAISO modifying the *pro forma* RMR contract to revise the termination provisions to enable the CAISO to implement the *pro forma* agreement following the current stakeholder process, the Board's approval of the new *pro forma* and, most importantly, FERC's approval of the revised *pro forma*. NRG appreciates the CAISO clarifying that the revised termination provisions are temporary and will not apply to RMR contracts that may be filed prior to the conclusion of the stakeholder process.

f. Update certain terms of pro forma RMR agreement

   i. Remove AS bid insufficiency test and revise dispatch provisions to align with current market design

   Comments: The AS bid insufficiency test was included in the RMR contract to ensure that the CAISO would use its markets, not the RMR contract, as the primary means to acquire AS. The CAISO's proposal to require cost-based energy and AS offers from RMR units in all hours (presuming that the default

RMR contract will be analogous to the current Condition 2 RMR contract) surfaces a version of the same concern – that the CAISO will use the RMR contract to compel market participation at cost. Such compelled participation is not consistent with the current design of the Resource Adequacy must-offer obligation (MOO, which does not compel cost-based energy and AS offers. NRG does not oppose the elimination of the AS bid insufficiency test, but does oppose forcing cost-based energy and AS offers from RMR units in all hours, as NRG will discuss in item (h) below.

ii. Update Schedule M and Schedule C to include GHG compliance cost calculation, DAM and RTM gas price index, and updated SC charge calculation

Comments: NRG strongly supports restructuring Schedule C to eliminate the archaic gas price mechanism. In so doing, the CAISO must replace this mechanism with a mechanism that better reflects actual gas procurement costs. As the recent SoCal CityGate gas market dislocations (e.g., for July 23) painfully indicate, using gas costs that do not reflect actual market conditions not only leads to suppliers not recovering their costs, it also leads to running the CAISO market on artificial gas prices, which will lead to inefficient and potentially problematic dispatch (e.g., if the CAISO's market results call for burning more gas than can be reliably supplied). While fixing the impact on the CAISO's markets from using an incorrect gas cost is outside the scope of this initiative, using the correct gas cost in Schedule C is required and clearly within the scope of this initiative.

iii. Update Schedule M to be consistent with bidding rules in ISO tariff and BPM

Comments: NRG supports this.

iv. Seek input on defining a heat rate curve formula in Schedule C for multi-stage generator resources

Comments: Given that a MSG unit has different heat rates depending on configuration, NRG offers that where an MSG unit is designated as an RMR unit, then Schedule C will also need to be modified to allow for configuration-specific heat rates. Furthermore, some other schedule must be modified (Schedule D) or created (Schedule D-1) to account for MSG transition costs.

v. Other

Comments: While NRG offers elsewhere in these comments that it may be easier to adopt a wholly new form of contract rather than trying to turn the RMR contract into an RA vehicle through piecemeal changes, should the CAISO insist on modifying the RMR contract, it must also consider modifying other provisions of the RMR contract, including the CAISO's authority to dispatch under Section 4.1, how contract service limits are determined and how service in excess of those contractual service limits is compensated.

g. Update allowed rate of return on capital for RMR compensation

Comments: NRG does not oppose re-examining the rate of return allowed in Schedule F. NRG agrees with Calpine that a new rate must account for the fact that this rate of return is specified to be a pre-tax rate of return. With regards to how this rate of return is set, NRG's strong preference is that the RMR owner be allowed to offer a proposed rate of return in its RMR rate schedules (CAISO option 4).

h. Make RMR resources subject to a must offer obligation

Comments: The CAISO is proposing to use the RMR contract both to (1) take RA-equivalent service from units that would otherwise retire but are required to remain in operation and (2) to subject such RMR units to a 24 x 7 cost-based must-offer obligation. NRG does not support the CAISO's proposal for subjecting RMR units to a must-offer obligation for several reasons. *First,* nothing in the current RA program design compels RA units to submit *cost-based* offers for energy and AS; while RA units are required to submit energy and AS offers, RA units may submit *market-based* offers. *Second,* this proposal represents a significant departure from the current requirements of Condition 2 of the RMR contract, which require cost-based offers *only* when the RMR unit is required to operate to maintain local reliability or mitigate non-competitive congestion. *Third,* forcing full-time cost-based offers from a unit that would have otherwise retired but cannot because it is required to operate under some conditions to maintain *local* reliability has the potential to unduly impact energy and AS market prices at times when the unit otherwise would not be running. Units that the CAISO forces into continued operation for local reliability should be operated only when they are required to operate to maintain local reliability.

The CAISO is essentially looking to turn the RMR contract, which was originally intended to allow the CAISO only to access cost-based energy under limited conditions and not to compel market participation under all conditions, into a vehicle under which to take generic RA service. NRG holds that the CAISO would be better off to scrap the RMR contract altogether and create a wholly new contract for this purpose than to try to re-form the RMR contract into a purpose for which it was never intended. Schedule F should remain the pricing core of this new contract, which also should, consistent with the existing RMR contract, contain provisions to compel cost-based offers and credit back net market revenues when the unit is required to operate for local reliability. Given that under the CAISO's new proposed structure, a unit would not be designated as RMR unless it was required to operate beyond the time at which it wanted to retire, the CAISO should not do further damage to energy and AS markets already compromised by the number of resources who do not depend at all on the CAISO's markets to recover any of their costs by forcing cost-based offers from units that should be retired but must remain in operation for specific, limited reliability reasons.

i. Make RMR resources subject to the Resource Adequacy Availability Incentive Mechanism

Comments: NRG strongly agrees with the premise that RMR units should be subject to either the availability incentive mechanism present in the RMR contract **or** the Resource Adequacy Availability Incentive Mechanism ("RAAIM") but not both. NRG cannot now say that it supports subjecting RMR units to RAAIM instead of the RMR availability incentive mechanism for several reasons. *First,* NRG's understanding is that RAAIM is almost certainly going to undergo significant modification soon, and the next form of RAAIM is not known. *Second,* the RAAIM penalty price may be misaligned with the imputed capacity price paid under the RMR contract. This misalignment may create undue risk for the RMR unit owner if the RAAIM price is higher than the imputed RMR price. Finally, RAAIM is currently intended to create an incentive for a resource to offer in all hours, something that NRG opposes being applied to the RMR contract, as noted above.

j. Consider whether Condition 1 and 2 options are needed for RMR

Comments: NRG does not oppose the CAISO's position to keep both options but use Condition 2 as the default.

k. Ensure RMR designation authority includes system and flexible needs

Comments: NRG does not oppose designating units that would otherwise be retired as RMR to meet system and flexible capacity needs. Consistent with NRG's response above, such units should be required to submit cost-based offers *only* when they are required to operate to cure the deficiency for which they were designated RMR – e.g., when there are operational system capacity or flexible capacity deficiencies that cannot be cured through RA units.

l. Allocate flexible RA credits from RMR designations

Comments: NRG does not oppose allocating flexible RA credits arising from RMR designations. Again, NRG would oppose imposing a cost-based obligation to offer in all hours on RMR units.

m. Streamline and automate RMR settlement process

Comments: NRG does not object to using existing CAISO market settlement systems to streamline and automate RMR settlements if RMR units would be walled off from any exposure to CAISO market defaults or to other CAISO charges that are based on market participation. It is NRG's understanding from the July 11 meeting that the CAISO is proposing to insulate RMR owners from any allocation of a market default.

n. Lower banking costs associated with RMR invoicing

Comments: NRG supports this aspect of the CAISO's proposal.

CPM

o. Evaluate year-ahead CPM local collective deficiency procurement cost allocation to address load migration

Comments: The issue of how to address load migration is complex and difficult. To the extent that some procurement obligations are assigned based on forecast and trued up later based on actual load, CPM costs should be treated similarly. To the extent that cost allocations are based on forecasts and not trued up later, then CPM costs should be treated similarly. For example, CPUC Decision D.18-06-030 now requires CCAs to participate in the year-ahead forecasting process. This means that there should be a year-ahead load forecast for CCAs just like there is for IOUs. Allocating CPM costs based on similar load forecasts will be equitable if the forecasts are reasonably accurate. To the extent the forecasts are not accurate – that is a problem outside of the allocation of CPM costs.

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

Comments: NRG agrees with the CAISO's assertions that (1) trigger 2 set forth in the May 2015 Offer of Settlement was met (some LSEs relied on CPM for more than 50% of their RA obligations) and (2) that the CPM design was not responsible for this outcome. In other words, LSEs' reliance on CPM at the end of 2017 was the result of two things: (1) provisions of D.12-04-046 that prevented SDG&E from contracting with Encina in the year after its original OTC compliance deadline, and (2) the mismatch between unit size and the small RA quantities being sought by small buyers and NRG's reasonable position that it required a critical mass of commitments above these small amounts to keep the plant in continued operation. The CAISO's notification to CPM Encina was not issued until December 22, 2017, well after the deadline for annual RA showings. Thus it appears that while the letter of the second trigger was met, it was more the timing of the designation and the misalignment between unit size and LSE requirements than the fundamental CPM design that encouraged LSEs to rely on CPM than led to this outcome.

In any case, the CAISO has decided to re-examine various aspects of CPM as part of this stakeholder process.

2. Other Comments

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

Comments: At the July 26 Board meeting, a PG&E representative offered that reforms to the RMR contract were urgently needed – a sentiment shared by a member of the CAISO Board. NRG strongly disagrees. Given that the fundamental design of the RA program is under investigation in Track 2 of the CPUC's RA program, NRG opposes pressing forward with "urgent" changes to the CAISO's RA backstop mechanisms until the new design of the RA program has been determined and implemented. There is an undeniable interplay between the RA program and the CAISO's RA backstop mechanisms (which the CAISO now proposes to expand to include RMR). Making fundamental changes to the CAISO's backstop mechanisms before the final design of the RA program has been committed has the potential to create a substantive misalignment between the two programs, to the potential detriment of both. If Track 2 remains on its current schedule, with a proposed decision by the end of 2018, then the CAISO's proposed timing of this stakeholder initiative, which would result in presentation to the Board in March 2019, may align very well with the Track 2 schedule. Should the Track 2 schedule slip, NRG would strongly oppose moving forward with making a recommendation to the Board on modifying the CAISO backstop mechanisms prior to the CPUC committing to fundamental RA program redesign.