Stakeholder Comments Template

Submitted by	Company	Date Submitted
Peter Spencer *Xian Ming "Cindy" Li* *Xian.li@cpuc.ca.gov* *415-703-1546*	*Office of Ratepayer Advocates- California Public Utilities Commission*	*August 28, 2017*

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 August 28, 2017 by 5:00pm

The Office of Ratepayer Advocates (ORA) recognizes the potential risks from early retirements of resources needed for grid reliability and submits the following comments on the California Independent System Operator's (CAISO) proposed enhancements to the Capacity Procurement Mechanism Risk of Retirement (CPM ROR).[1]

ORA makes the following recommendations:

- The current timing for CPM ROR designations following the end of October bilateral contracting should not be expanded to include an additional window in April.

[1] *Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements Revised Straw Proposal, Market & Infrastructure Policy*, CAISO August 8, 2017 (Revised Straw Proposal).

- For inclusion in its reliability studies, the CAISO should coordinate with the California Public Utilities Commission (CPUC) to obtain the latest information on resources that are recently approved or under review for inclusion.
- The CAISO should modify its proposal to provide more detail on transparency of reliability studies and notify stakeholders when a resource seeks a CPM ROR designation.
- The seven day stakeholder comment period following reliability study results should be extended to fourteen days following the study report.
- The CAISO should revise sections d.3 and e.3 of the proposed tariff to reflect that all types of resources will be considered in its reliability study.
- The tariff language should be changed to state that new resources will be considered in reliability studies if the resources will be in operation by the month of the identified reliability need.
- The proposal should call for the CPM ROR payment determination by FERC to utilize a cost-based approach for basic maintenance, rather than the RMR capacity calculation methodology.
- The CAISO should clarify its position that a CPM ROR designation could be declined by a resource and the ramifications of the resource retiring in spite of a CPM ROR designation.

1. Who Can Apply

Comments:

ORA continues to support the ability for all resources to apply for CPM ROR status.

2. Timing of Requests for Designation - Windows

Comments:

At the request of resource owners, the CAISO seeks to alter the current CPM ROR process by allowing the CAISO to conduct ROR analysis and designation before the period for executing RA contracts closes at the end of October. The proposed period would provide seven additional months for resources to plan for retirement, thus minimizing closing costs. In theory, this new earlier analysis and designation could result in resources successfully filing for CPM ROR status and perhaps prevent a plant from retiring prior to the subsequent year when it would be needed. During the stakeholder calls for this initiative, stakeholders representing generation resources noted that the failure of any resource to previously file for CPM ROR status was largely due to the filing requirement being set for late in the year which does not allow for adequate retirement planning. Unfortunately, no evidence exists to support the concept that additional retirement planning time would do more than simply reduce closing costs.

It might be reasonable to grant resources more time to plan their retirements and minimize closing costs, if the process did not pose the risk of negative ratepayer impacts. However, the proposed April window would allow resources to obtain a CAISO determination that they are needed in advance of the deadline for executing a bilateral contract with a load serving entity (LSE). The operators of such resources therefore would be unlikely to execute an RA contract at a price lower than the CPM price, which is typically well above the price LSEs pay for RA capacity. Given the risk that ratepayers would pay more for capacity designated as needed during the proposed April window, the CPM ROR analysis and designation process should not be expanded to include this additional window unless more evidence indicates that a lower reliability risk from early retirements is a reasonably anticipated outcome.

The proposed April window also would include a Type 1 category[2] designation that would pay a resource for the remaining months of the current year if it is determined that a need for the resource exists in the following year. It is difficult to imagine that a resource notified in late June of a guaranteed profitable contract just six months later would choose to retire. Furthermore, ratepayers should not pay for capacity beginning in late June for resources that would not help LSEs in meeting RA obligations, which in most cases would already have been placed under contract for the current year.

3. Process for Study and Procurement

Comments:

The CAISO proposes to perform a reliability study to determine whether a resource will be needed for reliability and will post a report no less than 30 days after the closing of each CPM ROR window.[3] In the August 15th stakeholder call, CAISO staff stated that they rely on resource operators to provide in service dates to consider resources for their study and do not typically seek this information from the CPUC.[4] ORA recommends that the CAISO coordinate with the CPUC to gather the latest information on resources that are recently approved or under review for inclusion in its reliability study. Resources under review at the CPUC may meet reliability needs identified two years out and should be included at least as an alternative to the base case. This information would allow LSEs to procure resources to meet future reliability needs at least cost and prevent the CAISO from mistakenly designating a resource as CPM ROR.

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[2] Revised Straw Proposal, pp. 11-13.

[3] Revised Straw Proposal, p.10.

[4] August 15, 2017 stakeholder call.

ORA also recommends that the CAISO modify its proposal to provide more detail on transparency when it conducts studies, including the content of any studies. The CAISO should notify all stakeholders when a resource seeks a CPM ROR designation and should identify the reliability issues that the CAISO will consider. This notification would allow stakeholders to understand the resources that are seeking CPM ROR and to prepare for review of the reliability study. To provide for more informed feedback, ORA recommends extending the seven day comment period to fourteen days following the study report.

In section d.3 of the proposed tariff, for Type 1 designation, the CAISO states that it may designate a resource as CPM ROR if "[n]o new generation is projected by the CAISO to be in operation by the start of the next RA Compliance Year that will meet the identified reliability need."[5] In section e.3 of the proposed tariff, for Type 2 or Type 3 designation, the CAISO similarly states that it may designate a resource as CPM ROR if "[n]o new generation is projected by the start of the RA Compliance Year following the RA Compliance Year in which the resource will be CPM that will meet the identified reliability need."[6] In the stakeholder call, the CAISO clarified that it intends to consider all resources in its reliability study, such as storage and transmission projects, and not simply new generation. The CAISO should revise sections d.3 and e.3 of the proposed tariff to clarify the types of resources that would be considered in its reliability study.

Additionally, it is not clear why the CAISO would only consider a new resource as an alternative to the generator seeking CPM ROR, if the new resource will be in operation by the start of an RA Compliance Year. For Type 1 CPM ROR designations, this means that if a reliability need is identified for December 2018, new resources would need to be projected in operation by January 2018 to avoid the CPM ROR designation for the generator. For Type 2 and Type 3 designations, if a reliability need is identified for December 2019, new resources would need to be projected to be in operation by January 2019 to avoid the resource's designation as CPM ROR. Based on the current proposed language, even if a new resource is projected to be in operation by mid-2018 or mid-2019 to address the reliability need, CAISO would still provide the CPM ROR designation to the existing generator seeking designation. This would lead to costly CPM RPR contracts when ratepayers would already be paying for the new resource that can address the reliability need. To minimize ratepayer costs, ORA recommends CAISO revise the language to state that it may issue a CPM ROR if no new resource is projected by the CAISO to be in operation by the month of the identified reliability need.

[5] Revised Straw proposal, p.19.

[6] Revised Straw proposal, p.21.

4. Application Requirements, Timelines and Reliability Studies

Comments:

The Revised Straw Proposal only allows for seven days for stakeholders to review and submit comments on a CAISO reliability study following a CPM ROR application. ORA recommends granting fourteen days for stakeholders to file comments to allow sufficient time to analyze the report and prepare well-reasoned comments. As previously stated in Section 3, the CAISO should notify all stakeholders when any resource seeks a CPM ROR designation and the reliability issues that the CAISO plans to consider. This would inform stakeholders which resources are using CPM ROR and provide more time for their review of the issues related to the potential CPM ROR designation.

5. Selection Criteria when there are Competing Resources

Comments:

ORA has no additional comments at this time.

6. Term and Monthly Payment Amount

Comments:

ORA has no additional comments at this time.

7. Cost Justification

Comments:

The Revised Straw Proposal calls for resource owners to file at the Federal Energy Regulatory Commission (FERC) to justify costs, with FERC deciding the level of compensation.[7] The CAISO recommends that FERC apply a pricing formula based on the current Reliability Must Run (RMR) process with the intent that the payments be cost-based.

The initiative proposes to provide resources considered for uneconomic retirement with "a bridge to a future RA year when it is needed for reliability."[8] Resource owners requesting a CPM ROR designation will trigger a reliability study to determine potential need to retain the resource for reliable grid operation. If a need for the specific resource exists in a subsequent

[7] Revised Straw Proposal, p. 16.

[8] Revised Straw Proposal, p. 7.

year, the resource will qualify for payments during a bridge period of 6-12 months, after which either the CAISO or a load serving entity (LSE) will negotiate a capacity contract. It is unclear why a bridge payment designed to keep a resource afloat for a short period of time should be based on capacity costs, rather than the costs associated with a temporary shutdown or a cold lay-up.

The CPM ROR concept of providing a bridge payment differs from the other types of CPM processes, which are designed to procure needed capacity rather than simply providing a source of revenue for an unprofitable resource. In the case of a request for a CPM ROR designation, the CAISO study would determine whether the resource's capacity is not needed in the future, or while the resource's capacity or operational characteristics are not needed in the current year, the specific resource would be needed in the subsequent year.

While bridge payments are designed to prevent early retirement, the likelihood of a resource actually retiring with a profitable contract guaranteed in the near future seems remote. However, if a bridge payment is determined to be necessary to prevent a resource from retiring, the CAISO should recommend that FERC utilize a cost-based approach for basic maintenance while awaiting the guaranteed contract, rather than the RMR capacity calculation methodology. In Resolution ESRB-6, the CPUC approved a request by Calpine to place its Sutter plant in cold layup. This provides an example of remaining viable with low maintenance costs and notes one resource operator's choice to expend minimal costs to allow for an eventual restart and avoid permanent retirement.[9] During cold layup, Calpine will provide a five-person team for security and necessary maintenance and continue to maintain Sutter in compliance with all applicable laws, ordinances, regulations, and standards. This includes maintaining all applicable environment permits and meeting all obligations required to ensure a prompt and eventual restart.[10]

8. Decision to Accept

Comments:

The Revised Straw Proposal states that it "does not propose to change the current CPM tariff provision, which allows a resource to accept or decline a CPM ROR designation, i.e. CPM is voluntary."[11] However, it is not clear what would happen if a resource declines a CPM ROR

[9] CPUC Resolution ESRB-6, August 18, 2016.

[10] Ibid. p. 4.

[11] Revised Straw Proposal, pp. 16-17.

designation. If the CAISO offers the resource CPM ROR designation based on its determination that the resource is need for reliability, yet the resource declines the designation and retires, how would CAISO work with the CPUC to ensure that the reliability need is met? Alternatively, could the resource decline the designation and choose not to retire and attempt to solicit a contract at higher cost than under CPM ROR, knowing that it is needed to meet reliability needs? The CAISO should therefore elaborate on the next steps if a resource declines CPM ROR designation.

Additionally, CAISO's argument relies on its reading of the current tariff to state that CPM ROR is voluntary. However, the tariff discussion regarding declining CPM specifically references Exceptional Dispatch CPM (Sections 39.10.3 43A.2.5.3 and 43A.4.2.1) and does not mention CPM ROR. To clarify the ability of resources to decline a CPM ROR designation, the CAISO should cite the specific language it relies on to determine that CPM ROR is voluntary.

9. Cost Allocation

Comments:

ORA has no additional comments at this time.

10. RA Credits

Comments:

The Revised Straw Proposal would allocate RA credits to LSEs in accordance with current tariff provisions.[12] The tariff grants RA capacity credits to LSEs on a pro rata basis when capacity payments have been authorized under the CPM processes.

As noted above, ORA does not support capacity payments for resources during periods when no need for the capacity exists. During the August 15th stakeholder call, the CAISO noted that capacity payments would provide benefits to LSEs in the form of capacity allocations. Current RA regulations require LSEs to have contracts supplying 100% of their local capacity obligations and 90% of system and flexibility needs for the following year by the end of October. Thus, there would be no benefit to allocating additional local capacity to LSEs after October. LSEs are allowed to true up any shortfalls for system and flexible capacity in month-ahead filings. Based on the proposed process, the earliest any November CPM ROR filings could be allocated by a Local Regulatory Authority (LRA) such as the CPUC would be after the February 22 completion of the ROR process. LSEs must have signed contracts for April by the beginning of March and most likely could not benefit from any assigned capacity until possible inclusion for a June

[12] Revised Straw Proposal, pp. 16-17.

month-ahead filing. The April window provides even less opportunity for LSEs to benefit from allocated capacity, because any assigned capacity for the current year probably would not be available for use until the month-ahead filings for September. Prudent planning and contract negotiations by LSEs are likely to leave few gaps for which the allocated capacity would provide a significant benefit to the LSE's ratepayers.

11. Other Comments

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

Comments:

Comprehensive Analysis

ORA concurs with Pacific Gas and Electric Company's (PG&E) comments in the Temporary Shutdown of Resource Operation initiative in which PG&E recommends a more holistic view of the retirement retention process.[13] PG&E observes that:

> Without analyzing the interplay between the TSRO and a number of related processes - including the CPM ROR and RMR designation processes, annual/monthly RA compliance requirements, and the outage management process – the CAISO risks implementing an initiative that skews generator incentives and leads to significant unintended consequences, including expanding gaming opportunities, which could lead to higher RA procurement costs, or result in a net increase in CPM awards. [14]

ORA supports further analysis to assess the severity of the risk of retirement and a comprehensive plan to retain resources needed to secure grid reliability. This comprehensive analysis should include minimizing ratepayer risks and costs while maintaining reliability.

Draft Tariff Language

The draft tariff language should be modified to clarify when resource owners can request a CPM risk of retirement designation. Section 43A.2.6 of the draft currently states,

> The CAISO will provide two windows annually for resource owners to request a CPM risk of retirement designation. To be considered for a CPM risk of retirement designation in a given window, a resource owner must submit a request *by the deadline specified in the BPM for Reliability Requirements for that window*. *The deadline for the first window will be no later than June 30 of each*

[13] *Comments of Pacific Gas and Electric Company, Temporary Suspension of Resource Operations-Straw Proposal*, July 13, 2017, p.1.

[14] Ibid.

> *year, and the deadline for the second window will be after the deadline for submitting annual Resource Adequacy Plans. (emphasis added)*

In the stakeholder call, CAISO stated that they will define the dates of the windows more clearly in the Business Practice Manual (BPM) instead of stating hard dates in the tariff. While this approach may allow the CAISO to make changes to any dates for the windows more easily through the BPM, the current draft tariff language does not sufficiently reflect the Proposal and could create confusion.

The Revised Straw Proposal defines two-week windows that will allow the CAISO to simultaneously assess all resources who apply for CPM ROR during the window. These short windows mitigate the potential for resource owners to gain market information by staggering their resource applications to determine the specific need of each resource. However, the draft tariff language does not define a window and only discusses a deadline for when a window closes and not when it opens. Even though the tariff references the BPM, it only states that a request must be submitted by the deadline in the BPM and not within a specific window. This could lead to an interpretation that a resource owner could apply for CPM ROR in January 2017 for Type 3 designation for 2018 based on any reliability need in 2019, because it is submitted before the deadline for the second window. ORA recommends modifying the draft language to explicitly state that applications should be submitted within a two-week window as defined in the BPM.