California ISO

Stakeholder Comments Template

Capacity Procurement Mechanism Soft Offer Cap

Submitted by	**Organization**	**Date Submitted**
Xian Ming "Cindy" Li *Patrick Cunningham* *Patrick.cunningham@cpuc.ca.gov* *415-703-1993*	*Public Advocates Office – California Public Utilities Commission*	*August 20, 2019* *Revised:* *September 6, 2019*

Please provide your organization's comments on the following issues and questions.

1. Maintain the CPM soft offer cap

Please provide your organization's feedback on this topic as described in section 5.1 of the straw proposal. Please explain your rationale and include examples if applicable.

Please indicate any analysis and data review that your organization believes would be helpful to review on this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

The Public Advocates Office does not currently take a position on maintaining the current CPM Soft Offer Cap rate of $6.31/kW-month.

However, we support a discussion on alternative methodologies and a review of the methodology for deriving the Soft Offer Cap as part of this initiative. As the CAISO points out in the Straw Proposal, "as the grid and fleet evolve, it may be prudent to change some of the assumptions about how the soft offer cap is set in the future."[1] CPM designations since 2012 have been 87 MW in size on average, designating both thermal and non-thermal technologies.[2] Using a 550 MW combined cycle benchmark to derive the Soft Offer Cap may no longer be appropriate.

2. Changes to 12-month CPM designations

[1] Straw Proposal, p. 8.

[2] Straw Proposal, p. 12.

Please provide your organization's feedback on this topic as described in 5.3 of the [straw proposal](). Please explain your rationale and include examples if applicable.

Please indicate any analysis and data review that your organization believes would be helpful to review on this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

The CAISO proposes to change how resources that receive a 12-month CPM designation are compensated if those resources fail a pivotal supplier test (indicating an uncompetitive solicitation). The resources that accept such a designation would provide a full cost of service calculation to the CAISO, very similar to the compensation structure of Reliability Must Run (RMR) resources.[3]

The Straw Proposal states that full cost of service compensation for the 12-month CPM designation will include variable costs accrued through operation.[4] At the August 6, 2019 working group meeting, the CAISO clarified that energy market revenues above the resource's cost of operation would be "clawed back" by the CAISO and used to offset the cost of the CPM designation. However, it is unclear if market revenue that compensates the resource's variable costs would also be clawed back. Most market resources, including RMR resources,[5] submit energy bids that equal the cost of producing energy, including variable costs like fuel. If an uncompetitive resource with a 12-month CPM designation bids its energy in the same way, it would earn at least enough market revenue to pay for its variable costs.[6] This would lead to double compensation for the resource's variable costs, once through the CPM rate and again through earned market revenue. The duplicative costs would ultimately be borne by ratepayers. The CAISO should clarify, in its next draft proposal, how market revenues will be treated for such CPM designated units and ensure that the CPM designation does not compensate a resource twice for variable costs.

The Public Advocates Office also seeks clarification, in the next draft proposal, that uncompetitive 12-month CPM resources will be provided the same rate of return structure as described in Schedule F of the RMR Pro Forma.[7] This clarification should include the manner of calculation of the rate of return as well.[8]

---

[3] Straw Proposal, p. 12.

[4] Straw Proposal, p. 14.

[5] Schedule M of the RMR Pro Forma provides the calculation of Condition 2 RMR resource bids and includes variable costs such as fuel, operations, maintenance, and emissions. See CAISO Tariff Appendix G, Schedule M.

[6] CPM-designated resources are allowed to create their own economic bids or have the CAISO generate a bid which would include variable costs. See CAISO Tariff 43A.5.1, 40.6.8, and CAISO Business Practice Manual for Market Instruments, 8.2.1.2.

[7] See CAISO Tariff Appendix G, Schedule F, Section 5.

[8] Currently, the RMR rate of return is 12.25% plus a bond yield index. This may be modified by the RMR and CPM Enhancements initiative's FERC filing which instead allows the generator to

Additional comments

Please offer any other feedback your organization would like to provide on the straw proposal for the CPM Soft Offer Cap initiative.

The Public Advocates Office has no additional comments at this time.

---

determine and justify a rate of return. See CAISO RMR and CPM Enhancements Draft Final Proposal, January 23, 2019, pp. 28-30.