Comments of Pacific Gas & Electric Company

Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements Issue Paper

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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Capacity Procurement Mechanism Risk-of-Retirement ("CPM ROR") Process Enhancements Issue Paper (posted on May 10, 2017) and the presentations discussed during the May 18 and 25, 2017 working group meetings.

PG&E appreciated the CAISO's workshop process. It helped illuminate numerous perspectives on the Risk-of-Retirement (RoR) issue. It also made it apparent that a more comprehensive and coordinated effort is imperative to address the underlying cause of this initiative.

While PG&E understands the CAISO's desire to limit the scope of this initiative, expediency will not achieve an efficient market design. For this initiative, PG&E has three comments:

1. **The Scope of this initiative does not address the underlying problem: we need a bigger conversation about the CAISO's retirement process and RA program design.**

The CAISO's market is undergoing significant changes. Historically, IOUs served the majority of load and could balance procurement in local areas to ensure reliability while meeting Resource Adequacy (RA) program design. But with the growth in number and size of Community Choice Aggregators (CCA), IOUs are less able to conduct multi-year RA procurement, and even have led IOUs to sell their excess procured capacity. This means non-IOU LSEs are becoming responsible for ensuring the "right" capacity is contracted to meet reliability needs. With each LSE wanting to keep costs low, specific RA requirements from resources in local areas become more important, as no one LSE would have the incentive to procure uneconomic resources or maintain uneconomic owned resources but might be needed by CAISO to reliably operate the system. Unless significant changes are made to the whole RA framework in California, CAISO will likely be forced to take on a more active role to ensure reliability (e.g. through the CPM backstop process).

The aim of this initiative is to improve the CPM procurement process of resources that are needed for reliability, but are at risk of early retirement due to a lack of Resource Adequacy (RA) capacity contracts by Load Serving Entities (LSEs). However, LSEs continue to meet their RA obligations in each monthly showing, suggesting that the right amount (system RA), location (Local RA), and operational characteristics (Flex RA) are being procured by LSEs. If LSE's are picking the "wrong" RA in the bilateral process to meet the CAISO's reliability needs, various solutions are likely needed - from redefining RA products to redesigning the CPM backstop process to better enable the CAISO to procure needed generation.

Limiting the scope of this initiative to process enhancements may create more problems than it solves. Its sole focus on process enhancements is problematic because the process enhancements do not consider potential consequences on the bilateral market. For instance, a key problem statement presented in this initiative is that generators do not have sufficient time to make retirement decisions if they must wait until after the CPUC's RA filing deadline for a 'need' determination. In response, several stakeholders asked whether notifying generators on October 1 (instead of October 31) would work because it could give generators a little more runway, and provide LSEs an opportunity to negotiate for a lower price than the CPM cap.

PG&E does not consider this a viable solution for several reasons. First, it interferes with the bilateral procurement process; namely, if a generator knows it is needed and can obtain capacity prices near the CPM soft offer cap prior to the CPUC's RA filing date, a generator can undercut the competitive nature of the bilateral market. Second, LSEs want to procure a low-cost portfolio. There is no incentive for an LSE to solely take on an expensive RA contract, when the CPM process would distribute that obligation fairly to all LSEs in the TAC area. In other words, as the number and size of CCAs increase, it will be increasingly unrealistic to assume a single LSE will take-on a high cost RA contract. Lastly, LSEs may have already contracted to meet their requirements and not need the generation. For LSEs that choose to wait until the ISO's RoR determination is complete, fewer generators will receive RA contracts, meaning more generators will not know if they have a contract until later in the RA bilateral process – which is the opposite intent of this initiative.

As this example illustrates, the scope of this initiative cannot be contained to process enhancements, because there are generator market power consequences, LSE dynamics at play, and jurisdictional considerations. Limiting the scope to process enhancements falsely suggests there is a simple fix without needing to assess the larger scale impacts. There is no 'quick fix' to the RoR problem; we need a broader conversation about the CAISO's future role in reliability procurement.

2. **This Initiative should examine how the CPM process can be combined with the Temporary Suspension of Resource Operations (TSRO) Initiative and the Reliability Must-Run (RMR) designation processes, and specify how each process fits together and with the CPUC's RA program.**

In either case, continuing down the process enhancements path, or addressing Risk-of-Retirement directly in a broader conversation, it would be helpful for the CAISO to provide information on how it envisions the CPM RoR, TSRO, and RMR processes interrelate. The CAISO should provide its perspective on how it views the primary purpose of each designation, any inconsistencies or overlaps, the likely compensation that would be available to generators under each method, and how orderly retirement of excess generation could be achieved. In addition, it would be helpful for the CAISO to overlay these processes with the CPUC's RA program, to identify any market power, jurisdictional, or compliance concerns.

3. This Initiative could provide more market transparency on what is "Needed" for Reliability

As discussed above, the purpose of the RA program is for LSEs to procure what the CAISO will need to operate the grid reliably. If the current program is not doing that, we should fix the RA framework or ensure the CAISO can take on a more prominent role in backstop reliability procurement.

In the meantime, transparency on how "need" is determined could be helpful for all market participants. PG&E requests more information on the evaluation process used for determining what is "needed". For instance:

- What assumptions do we make about non-RA resources' availability when making a 'needs' assessment?
- What assumptions does the ISO use for operational flexibility? (3-hour ramp? What are the Import assumptions? What are the assumptions on economic bidding by renewables?)
- What are the criteria for determining whether the CAISO procures when there is an RA deficiency?
- Under what time period is the need evaluated? (Do we look one year full year from the data of the Risk of Retirement notification? Or, do we look only to the end of the calendar year?

A functioning market requires that LSEs know what they are buying and why they are buying it. This should be transparent and would be helpful to all market participants in making optimal resource selections.