Review of RMR and CPM Initiative – Issue Paper/Straw Proposal and Stakeholder Meeting

Submitted by	Company	Date Submitted
Matt Lecar 415-973-7743 Matt.Lecar@pge.com	Pacific Gas and Electric Company	February 21, 2018

PG&E appreciates this opportunity to provide comments on the Review of Reliability Must Run (RMR) and Capacity Procurement Mechanism (CPM) Issue Paper and Straw Proposal for Phase 1 Items, issued on January 23, 2018, and discussed in the stakeholder meeting on January 30, 2018. While PG&E supports the efforts underway to reform and harmonize the backstop procurement processes within the CAISO's existing RMR and CPM tariff authority, PG&E's overriding and consistent concern[1] is that the timing and scope of solutions being considered fail to rise to the level of urgency needed. PG&E is concerned that the proposed timing and scope will fail to protect customers from significant additional costs associated with backstop procurement for units that will likely seek to retire in the next few years, including units that may already have submitted letters to CAISO for potential designation in 2019.

In response to the FERC order encouraging stakeholders to participate in the CAISO's stakeholder initiative process,[2] the following comments highlight critical issues that are not being addressed in the current scope:

- Changes to the Transmission Planning Process (TPP) and Local Capacity Requirements (LCR) study processes are necessary to support the early identification of needs and assessment of alternatives in time to avert new backstop procurement.
- Reliability Must-Run compensation should be based on going-forward fixed cost to eliminate arbitrage by generators choosing between CPM and RMR.
- CAISO's discretion whether or not to conduct backstop procurement leads to unjust and unreasonable outcomes. Removal of this discretion should be in scope for this initiative.

PG&E strongly urges CAISO to expand the scope and accelerate the pace of this initiative to avert the very real possibility of costly new RMR designations in 2019.

PG&E provides the following specific comments.

[1] See, for example, PG&E's recent comments on the Draft Policy Roadmap and LCR Study Criteria, as well as comments made before the CAISO Board during the February 15 general session approving the Final Policy Roadmap. PG&E's concerns were also reflected in its protests to FERC in the two Calpine applications for 2018 RMRs (ER18-230-000 and ER18-240-000).

[2] FERC, in its orders of December 29, 2017 setting the two Calpine 2018 RMR applications for settlement, stated, "We understand that some of these issues may be addressed in an upcoming stakeholder process that CAISO states it intends to initiate in 2018, and we encourage interested stakeholders to participate in that process."

1. The timing of Phase 2 should be accelerated to address the urgency of the coming wave of early economic retirements of gas-fired generation and the likelihood of new backstop procurement for 2019.

The issue paper identifies a calendar of activities in this initiative that will eventually lead to the development of specific proposals on Phase 2 items following the May Board meeting. There is no reason for this delay. PG&E has advocated that Phase 1 and Phase 2 should move on parallel tracks, so that Phase 2 discussions can begin immediately. If the problem is a lack of CAISO staff bandwidth, PG&E strongly advocates re-prioritization of other market design efforts on the policy roadmap that, while important, are not equally time critical to complete in 2018.

Recommendations for urgent policy changes must be submitted to the Board as timely as possible, before decisions are required with regard to any new backstop designations for 2019.

PG&E notes that during the stakeholder meeting, CAISO legal staff asserted that the terms and conditions of an RMR agreement are based on the current, FERC approved CAISO tariff at the time of Board approval of the original RMR designation, even when the agreement is renewed for subsequent years. Therefore, any new RMRs that may be designated during the course of this initiative will effectively be grandfathered under the current tariff, and never subject to the policy changes developed and approved through this initiative. It is therefore even more critical that policy changes to improve and streamline the backstop procurement processes be brought to the Board for approval as expeditiously as possible, before designation of any additional new RMRs under the current, outdated, flawed rules.

2. The Phase 2 scope should be expanded to include changes to the TPP and LCR study processes to support the early identification of needs and assessment of alternatives to new backstop procurement.

In order to achieve the objective of a holistic review of the conditions that are driving the need for new backstop procurement, it is essential that the scope of Phase 2 issues not be narrowly limited to just the RMR and CPM provisions of the CAISO tariff. The initiative must also consider such changes as are necessary throughout the CAISO tariff, including to the processes upstream of a backstop procurement, in order to alleviate and where possible, avert the conditions that currently allow local reliability needs to emerge only after needed generation threatens to retire, once it is already too late to consider lower cost alternatives to backstop procurement.

Currently, the TPP and LCR studies are failing to identify local area and subarea reliability needs created by generation at risk of retirement. Current planning criteria only require a sensitivity of generator retirement if a unit will attain 40 years of age or more during the planning horizon. The economic criteria driving early retirement are not considered. As a result, free reign is given to the resource owner to navigate the process and game the timing of its own retirement (or threatened retirement) announcement, in order to "jam" the end of year decision window for new backstop designations.

Immediate change is needed to take this discretion away from generation resource owners. The planning processes at the CAISO must routinely and effectively identify reliability needs of the system and assess cost-effective alternatives (including transmission solutions, as well as preferred resources and energy storage), on a timeline that can effectively avert or mitigate the need for costly new backstop procurement.

In particular, PG&E believes that CAISO should assess necessary changes to the annual TPP and LCR studies to:

1) Allow for the timely[3] identification of local area and subarea needs that would be created by the early economic retirement of at-risk generation;
2) Allow for the timely consideration of lower cost alternatives to backstop procurement (including both wires and non-wires solutions);[4] and
3) Allow for annual re-study of all in-place RMRs (or CPM Risk of Retirement contracts), to ensure that cost effective alternatives are being developed and deployed, and that any backstop contracts are retired as expeditiously as possible.

While the above changes should be coordinated with the CPUC's Integrated Resource Planning (IRP) proceeding and the upcoming review of the overall CPUC Resource Adequacy (RA) framework in the CPUC RA Proceeding, timing is critical to prevent the coming wave of retirements from resulting in additional costly RMR contracts. PG&E notes that the CAISO, on its own, can play a very helpful role by improving the early identification and mitigation of transmission reliability needs even before addressing other systemic problems in the RA market.

3. Discretion to backstop for deficiencies

The CAISO's CPM tariff offers the CAISO the discretion as to whether or not to exercise its backstop authority when there is a deficiency in meeting reliability requirements. In particular, the tariff states that the CAISO <u>may</u> procure to make up any local deficiencies.[5] For example, the CAISO analysis can set a local requirement at 400 MW which compels LSEs to procure 400 MW, but, if LSEs only show 380 MW, it allows the CAISO to forego procuring the additional 20 MW. CAISO routinely exercises this discretion, and does not procure to the full capacity requirements it establishes through the LCR studies.

This discretion is unjust and unreasonable since it allows the CAISO to require LSEs to meet a procurement target associated with a reliability standard, but does not compel the CAISO itself to procure to that same standard when LSE procurement falls short of the required level. This discretion also introduces uncertainty into the capacity market since it calls into question the exact procurement requirements and provides incentives for LSEs not to procure. CAISO exercise of this discretion also suggests the CAISO may routinely be setting local procurement requirements at levels that are higher than required to meet local reliability needs. PG&E believes this discretion should be discussed within the scope of this stakeholder process, including whether the 'may' in the CAISO tariff should be changed to a 'shall.'

4. Reliability Must-Run compensation should be based on going-forward fixed cost to eliminate arbitrage by generators choosing between CPM and RMR.

[3] Ideally studies could be performed up to five years ahead of time, but the new process should also consider a two year forward look, as part of the annual LCR study process.
[4] As an example, PG&E notes the proposal that was submitted and is recommended for approval in the Draft 2017-18 TPP to replace and retire the RMR generator in Oakland. Notably, this proposal is for solutions to go in service in time to mitigate a 2023 RMR need – i.e., five years following the submission in the TPP request window.
[5] See, for example, Tariff Section 43A.2.2, "The CAISO *may*, pursuant to this Section 43A.2.2, designate CPM Capacity in an amount and location sufficient to ensure compliance with the Reliability Criteria applied in the Local Capacity Technical Study." [emphasis added]

The CAISO has the authority at any time to designate a unit as RMR to meet an unmet grid reliability need. In addition, resource owners are likely to find that the CAISO's RMR process is still preferable to the CPM option. RMR requests do not require an attestation to retire if denied and can be requested at any time.[6] Maintaining this broad level of discretion is important to ensuring that CAISO has the ability to meet an unmet reliability need, but there must be a consistent and integrated approach that prevents resource owners from gaming the system in an unjust manner. This can best be accomplished by aligning the RMR compensation with the objectives of a competitive market to procure the least-cost resource to meet reliability. Generators are expected to bid in their incremental costs in the capacity or energy market with the expected market price being set by the marginal unit needed to meet reliability. Compensation based on going-forward fixed cost provides the efficient market signal for alternatives to be considered and is the most cost-effective way to meet reliability requirements. The current full embedded cost-of-service compensation for RMR resources, which includes recovery of the undepreciated capital value of the plant, encourages inefficient investment in alternatives and undermines the resource adequacy market for resources with locational market power.

5. With regard to the Phase 1 proposal to create a Must Offer Obligation, CAISO's proposal must address use limitations.

Phase 1 of this initiative is intended to immediately address and implement a must-offer obligation (MOO) for RMR units, comparable to RA and CPM resources. RMR resources are procured to ensure that the reliability of the CAISO Controlled Grid is maintained. The CAISO noted within its presentation, that the CAISO already has broad dispatch rights for RMR units such as dispatching a unit for energy solely for meeting local reliability needs or managing non-competitive congestion constraints.

Resource Adequacy requires that the CAISO maintain reliability using dependable resources without the guarantee of an energy only resource operating at the same time. The MOO allows for resources to economically bid or self-schedule and ensures that the CAISO has authority to commit and dispatch resources through its day ahead and real time markets. The CAISO has the ability to re-dispatch generation through the CAISO market via congestion management but this is only possible when market bids can be used to meet the reliability needs.

When resource bids are no longer able to meet those needs the CAISO would issue a dispatch notice to an RMR facility to meet those needs but this is only possible if the RMR facility that would have a MOO hasn't exceeded its contract service limits. The CAISO should provide additional details to describe how it will implement the use plan that identifies and preserves the specific hours for RMR dispatch operation while requiring market participation during other periods.

6. PG&E does not agree with an expanded RMR authority to address flexibility needs.

Among the items listed for consideration within the Phase 2 scope is an expansion of the CAISO's current RMR designation authority to include an RMR for units the ISO may deem necessary to meet flexibility requirements

[6] Note, for example, the wording of Calpine's letter of June 2, 2017: "Calpine is currently assessing whether to make Metcalf unavailable for CAISO dispatch effective January 1, 2018."

of the system. PG&E believes this proposal is premature, unwarranted, and likely to create further opportunities for gaming and front-running of the bilateral RA marketplace.

First, system flexibility is not a transmission reliability attribute for which an RMR may be an appropriate remedy. Flexibility is a characteristic of the mix of generation resources and the need to procure sufficient flexible reserves to manage uncertainty in the forecasting of both load and resource behavior at different forward time intervals. In addition to energy market products, CAISO procures pre-determined levels of flexible operating reserves through the ancillary services market, in order to ensure adequate flexible capacity is available to manage both uncertainty and unforeseen contingencies, such as the forced outage of a generator or the loss of a major transmission line. Given the availability of energy, ancillary service, and capacity market instruments to procure flexibility, it is unclear what additional flexible system characteristics might warrant the designation of an RMR for an individual unit at risk of retirement. Creating a new RMR for flexibility will only serve to grant a guarantee of cost-of-service regulated transmission rate recovery to those flexible units that threaten to retire early, incenting further gaming of the retirement process.

PG&E believes that the better solution to preserving the economics of units with desired flexible attributes is for the CAISO to establish the correct market-based products for pricing the flexible attributes the system needs.

How would CAISO determine that a specific unit is required for flexibility, above and beyond the resources available to it via the energy and ancillary services markets? The durable definition of flexibility is an active subject of discussion in the on-going Flexible Resource Adequacy Criteria and Must-Offer Obligation Phase 2 (FRACMOO2) initiative that is expected to inform Track 2 of the CPUC RA proceeding. By establishing a backstop authority for flexibility, the CAISO would be presuming the failure of this entire process and instead offering those economically distressed generators with flexible characteristics a further incentive to bypass the bilateral RA process in order to seek a more attractive RMR.

PG&E therefore advocates the removal of the RMR for flexibility from the Phase 2 scope.

Summary:

In summary, PG&E makes the following recommendations with regard to this initiative:

1. The timing of Phase 2 should be accelerated to address the urgency of the coming wave of early economic retirements of gas-fired generation and the likelihood of new backstop procurement for 2019.
2. The Phase 2 scope should be expanded to include changes to the TPP and LCR study processes to support the early identification of needs and assessment of alternatives to new backstop procurement.
3. Removal of CAISO discretion as to whether or not to backstop for local deficiencies should be in scope for Phase 2.
4. Reliability Must-Run compensation should be based on going-forward fixed cost to eliminate arbitrage by generators choosing between CPM and RMR.
5. With regard to the Phase 1 proposal to create a Must Offer Obligation, CAISO's proposal must address use limitations.
6. An expanded RMR authority to address flexibility needs should be removed from scope for Phase 2.