Comments of Pacific Gas & Electric Company

Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements Revised Straw Proposal

Submitted by	Company	Date Submitted
Tyrone Hillman (415) 973-3057	Pacific Gas & Electric Company	October 4, 2017

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 Draft Final Proposal (posted on September 13, 2017).

PG&E appreciates the CAISO's efforts to improve the risk-of-retirement process and the opportunity to comment on the following concerns which are highlighted below and captured in further detail in the subsequent section:

1. PG&E asserts that the process improvements have not addressed the current CPM limitations that resulted in using the CAISO Reliability Must-Run (RMR) tariff provisions for reliability procurement.
2. PG&E requests that the CAISO consider how CPM designations are given to resources with the lowest costs and best reliability characteristics for a "uniquely situated" condition.
3. PG&E contends that the CAISO should specify the process interplay between the Temporary Shutdown of Resource Operations (TSRO), Reliability Must Run (RMR), and the CPM ROR Initiative to ensure the various mechanisms are designed to work as intended.

The process improvements have not addressed the current CPM limitations that resulted in using the CAISO Reliability Must-Run (RMR) tariff provisions for reliability procurement. The original scope of this initiative stated that:

The limitations of the current CPM risk-of-retirement process were recently highlighted in March 2017 when there were two peaking plants owned by the Calpine Corporation that were at risk of unplanned, early retirement and were needed for reliability. The CAISO Board of Governors authorized the CAISO to procure the two plants using the CAISO's Reliability Must-Run ("RMR") tariff provisions, rather than the CPM backstop risk-of-retirement tariff provisions, because of process limitations in the CPM risk-of-retirement tariff.

Under the current tariff, the CAISO has the authority to designate CPM capacity through a CSP subject to the soft offer cap of $6.31/kW-month ($75.68/kW-year). The CPM process was intended to provide a transparent and market-based pricing approach for backstop procurement. Even if the CAISO were to implement the proposed process improvements to the CPM RoR process, resource owners are likely to find that the CAISO's Reliability Must Run (RMR) process is still preferable to the CPM option. Unlike CPM requests, RMR requests do not require an attestation,[1] do not require participation in all RA competitive solicitations, and can be requested at any time. There is no indication that the two Sierra plants that were designated for RMR service or the potential RMR designation of the Bay Area plant for the 2018 compliance year would have been inclined to use the existing CPM process or the proposed enhancements to the CPM process. The RMR rules are not complementary to the market-based objectives of the CPM RoR process and the process enhancements will not change a resource owner's approach with the existence of less stringent requirements to utilize the RMR process.

PG&E also requests that the CAISO confirm that costs recovered for a CPM exceeding the soft offer cap and an RMR are given equal treatment to ensure that resource owners aren't pursuing the RMR option to obtain cost of service that would exceed the CPM option.

The CAISO should consider how CPM designations are given to resources with the lowest costs and best reliability characteristics for a "uniquely situated" condition. The Draft Final Proposal enables generators to seek a Type 2 CPM ROR designation in the April window and will have to retire if a designation isn't issued unless the exception criteria are met. This could result in the CAISO issuing a designation to a November window applicant that could have higher costs or inferior reliability characteristics. For example, assume a local area has an LCR need of 90MW and has four different resources providing 30MW each for a total of 120MW. Resource A (30MW) applies within the April window and is denied the designation because the other resources (90MW) are still under contract to a later time. Resource A is then required to retire if it can't meet any of exception criteria and the remaining units become required as "uniquely situated" to meet the LCR need. Resource B applies within the November window and is granted the designation even though its costs are higher than that of Resource A. As such, CAISO's proposal should address how the CAISO will evaluate or reevaluate resources that reside within a local area having similar impact on the reliability constraint applying under these circumstances. This process could result in the retirement of a resource that has a lower cost and better reliability characteristics than another resource that may be granted the designation request in the following window and would have to be retained to maintain reliability. The narrow scope of enhancing this existing process may result in the procurement of resources

[1] *Calpine Letter to CAISO* dated June 2, 2017 Retrieved from http://www.caiso.com/Documents/CalpineLetter_CAISO_MetcalfEnergyCenterRetirementAssessment.PDF

that don't have the best characteristics. PG&E supports the need for a more comprehensive process of determining which resources to retain/retire.

The CAISO's Proposal should consider the process interplay between the Temporary Shutdown Resource Operations (TSRO), Reliability Must Run (RMR), and the CPM ROR Initiative to ensure the interplay between the various mechanisms works as intended.

PG&E requests that the CAISO provide a single process map showing how retirement, RMR, temporary shutdowns, and CPM ROR designations will be evaluated within each of the windows within the process. Without fully understanding how the proposed process enhancements will interact with each of the available options given their structure and limitations, it is difficult to comprehend the incentives for generation owners as they navigate this process or to predict what unintended market outcomes may occur.

In addition, PG&E offers the following comments on the Revised Straw Proposal using the CAISO template:

1. Please indicate whether you support the Draft Final Proposal.

Comments:

PG&E does not support this proposal and stresses that the current CPM limitations that resulted in the use of the RMR tariff provisions has not been adequately addressed by these enhancements.

2. Please provide any additional comments.

Comments:

No comments.