Pacific Gas and Electric Company®

Comments of Pacific Gas and Electric Company

RMR Designation: Feather River and Yuba City

Stakeholder Conference Call

Submitted by:	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO)'s proposal to extend Reliability Must Run (RMR) designations to Calpine's Feather River Energy Center and Yuba City Energy Center. In summary, PG&E:

1. Stresses that stakeholders need adequate time to review: the need associated with any RMR designation, possible alternatives and their cost effectiveness, as well as possible cost containment associated with any solution selected. Accordingly, PG&E recommends a delay of the decision to CAISO's next Board of Governor's meeting (May 1-2, 2017), as to the whether to grant RMR designation these units.
2. Requests CAISO work with the CPUC to align this process with the Resource Adequacy (RA) timeline and to clarify for stakeholders the impact this designation will have on procurement requirements.
3. Requests CAISO start a stakeholder process to prepare for future retirements to:
    A. Clarify what the need is; and
    B. Provide alternatives, their duration, need mitigation impact, cost-effectiveness, and outline possible cost containment measures.

These points are further articulated below.

1. **PG&E stresses that stakeholders need adequate time to review: the need associated with any RMR designation, possible alternatives and their cost effectiveness, as well as possible cost containment associated with any solution selected. Accordingly, PG&E recommends a delay of the decision to CAISO's next Board of Governor's meeting (May 1-2, 2017), as to the whether to grant RMR designation to these units.**

    CAISO has not granted stakeholders sufficient time to evaluate the proposal and PG&E is concerned that this situation sets an undesirable precedent for many other resources to seek an RMR designation rather than participate in the RA procurement process. CAISO received notification from Calpine regarding their units' retirement more than three months ago[1] yet gave stakeholders limited opportunity to comment on the reliability concern or the solution selected by Calpine. The initiative was announced on February 27, 2017, a summary of the proposal was posted close of business on March 2, 2017, with comments due on March 10, 2017; effectively giving stakeholders six business days to assess the reliability need and RMR destination. PG&E is also concerned that CAISO did not consider or present alternatives, or evaluate the cost effectiveness of each solution. Accordingly, PG&E recommends a delay of the decision to CAISO's next Board of Governor's meeting (May 1-2, 2017) as to the whether to designate these units as RMR designated units.

[1] https://www.caiso.com/Documents/DecisiononRequestforReliabilityMust-RunDesignations-Attachment-Mar2017.pdf

CAISO should also clarify if there are other planned retirements that stakeholders should be aware of. PG&E recommends that over the next month, CAISO:

A. Clarify the reliability need.

PG&E agrees that there is a reliability need if either Feather River Energy Center or Yuba City Energy Center retires. However, CAISO has not demonstrated the characteristics of the problem they are trying to solve with the RMR designations. For example, for Feather River, it is unclear what level of voltage drop would be needed and when these needs would occur. The ramping profile of Feather River indicates a low capacity factor and that the resource is being used for peak ramping needs. CAISO should clarify the base case used to determine the need and indicate the voltage reduction that Feather River can provide to address that need. With more information as to the reliability need, CAISO, in conjunction with stakeholders, could better understand the problem and develop alternative solutions that may be more cost effective than the proposed RMR designation.

B. Provide alternatives, their duration, their cost-effectiveness and possible cost containment measures

i. Provide alternatives

CAISO should provide alternatives and their level of effectiveness such as: doing nothing, keeping Feather River, instituting a new Remedial Action Scheme in the area, installing a static VAR compensator, converting the unit to a synchronous condenser, etc.

In this instance, PG&E understands that Calpine's own timeline[2] has put undue pressure on the CAISO to make a decision, but that should neither guide the solution nor set a precedent for future retirements. PG&E is concerned that CAISO selected Calpine's solution and did not consider alternatives to an RMR designation for these resources. PG&E is particularly concerned that the Capacity Procurement Mechanism (CPM) was not further evaluated. The need determination for Feather River and Yuba City align with the CPM designation criteria (i.e., for insufficient Local Capacity Area Resources or a Collective Deficiency)[3]. The annual CPM process is preferable in that it occurs after annual RA plans are filed as not to interfere with LSE procurement processes. On CAISO's Monday, March 6, 2017 stakeholder call, CAISO noted that due to the maintenance upgrades needed, Calpine would not accept a CPM designation as it would not cover their costs. This criterion for selecting a solution does not seem just or reasonable. Calpine and CAISO should provide transparency as to what maintenance needs to be done and the associated costs. Transparency regarding the nature and amount of costs associated with capital expenses is particularly important given known transmission work in the area that could alleviate or eliminate the need within the next 3 years.

ii. Understand the duration of each alternative;

As a part of determining the alternatives, CAISO should clarify when transmission upgrades will be necessary and how long interim solutions will be necessary. PG&E is concerned that these RMR designations will extend far beyond some of the planned transmission upgrades and

[2] In Calpine's November 28, 2017 letter the CAISO indicated that without a decision by March 31, 2017 they would commence decommissioning their assets, which would be irreversible.

[3] CAISO Tariff. Section 43.2. https://www.caiso.com/Documents/ConformedTariff_asof_Mar6_2017.pdf

requests that CAISO clarify the duration that these designations are anticipated to be needed. For example, CAISO's recent 2018 and 2022 Local Capacity Technical Study Draft Results[4] identify that even with the projected transmission upgrades, Yuba City Energy Center is projected to be needed even in 2022 for the Pease sub-area within the Sierra Local Capacity.[5]

iii. **Determine the cost effectiveness of each solution; and**
For each alternative, CAISO should help develop the costs so that stakeholders understand the tradeoffs with each option.

iv. **Within each solution determine what, if any cost containment measures are necessary.**
Some alternatives may necessitate cost containment measures and these should be discussed with stakeholders.

2. **PG&E requests CAISO work with the CPUC to align this process with the Resource Adequacy (RA) timeline and to clarify for stakeholders the impact this designation will have on procurement requirements.**

CAISO's process for RMR designation does not align with the Resource Adequacy timeline. CAISO's recommendation of an RMR designation proposes procurement prior to the RA showing. It is unclear if the need CAISO has identified will remain the same after the annual RA showings. Currently, CAISO's Draft Local Capacity Requirements Technical study is published in May which feeds into the CPUC's September publication of RA allocations for jurisdictional load serving entities (LSEs), and procurement generally occurs in September and October. CAISO's determination of need is premature in light of the RA timeline and gives Calpine significant bargaining power going into the annual RA procurement cycle. While CAISO has indicated that it will wait for the RA showings to be completed prior to the RMR designation and associated contracts being executed and filed with FERC by Calpine,[6] PG&E recommends that CAISO wait until the RA showing is complete prior to determining if these units warrant RMR designation.

CAISO should work more closely with the CPUC so that stakeholders understand the impact of this designation on procurement. Without adhering to the RA timeline, CAISO is interfering with the RA procurement process. PG&E recommends that CAISO work jointly with the CPUC on how this designation could affect the procurement process. For example, without a contract, it is unclear how Feather River and/or Yuba City could affect the RA allocation or total need for RA.

[4] CAISO. 2018 & 22 Draft LCR Study Results Summary of Findings. Stakeholder Meeting. March 9, 2017. http://www.caiso.com/Documents/OverallSummaryofFindings-Draft2018and2022LocalCapacityRequirement.pdf

[5] In light of future retirements, changing load and, increasing distributed energy resources on the system, PG&E recommends that CAISO take a more holistic approach to the LCR needs. PG&E recognizes this will be a time intensive process and must be done well in advance to provide stakeholders an opportunity to understand the needs, develop alternatives and evaluate the cost-effectiveness of potential solutions to mitigate or lessen the LCR needs. PG&E is concerned that this situation sets an undesirable precedent for uneconomic resources to seek an RMR designation. While PG&E understands the time sensitive nature of this current request, PG&E recommends that CAISO evaluate lessons learned from this process as a means to enhance the LCR process.

[6] CAISO. Calpine Peakers Retirement Assessment. Stakeholder Call. March 6, 2017. https://www.caiso.com/Documents/Presentation_PotentialReliabilityMustRunDesignation_YubaCityEnergyCenter_FeatherRiverEnergyCenter.pdf

3. **<u>CAISO should start a stakeholder process to prepare for future retirements to:</u>**
   A. **<u>Clarify what the need is, and</u>**
   B. **<u>Provide alternatives, their duration, need mitigation impact, cost-effectiveness, and outline possible cost containment measures.</u>**

PG&E recognizes that the risk of retirement issues are not limited to Calpine's Feather River and Yuba City units. Increased quantities of renewable generation have put downward pressure on CAISO energy market prices; in addition, California has excess capacity so RA prices remain relatively low.

PG&E understands that CAISO will start a risk-of-retirement initiative later this year,[7] but is concerned that the stakeholder process will be limited to the communication steps associated with risk of retirement rather than addressing alternatives and the cost effectiveness of each alternative to retirement. In light of changing market conditions, CAISO should expand the scope of their planned stakeholder process (or develop a stakeholder process) to determine how it will identify alternatives and demonstrate that the CAISO is selecting the most cost-effective solution.

CAISO developed, in concert with stakeholders, a tool to address risk of retirement issues when the Capacity Procurement Mechanism (CPM) was established. CAISO's reticence to use its established tool is troubling. As these processes are not being followed, PG&E requests CAISO expand its proposed stakeholder initiative to clarify when each of the alternatives is appropriate and who determines which mechanism is used. Further, the CAISO should specify the information it will provide stakeholders to demonstrate the reliability need (i.e., providing a base case and alternatives). It should also put forward various alternatives considered, their associated costs and any cost containment measures necessary.

[7] CAISO 2017 Stakeholder Initiatives Catalog. March 3, 2017. "Risk-of-Retirement Process Enhancements" pg. 18. http://www.caiso.com/Documents/Final_2017StakeholderInitiativesCatalog.pdf