



**Comments of Cogentrix Energy Power Management, LLC on Review of Reliability Must Run and Capacity Procurement Mechanism; Final Draft Proposal for Phase 1 Items and Items under Consideration for Phase 2**

<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
<i>Julie McLaughlin juliemclaughlin@cogentrix.com (415) 209 4367</i>	<i>Cogentrix Energy Power Management, LLC</i>	<i>August 07, 2018</i>

Cogentrix Energy Power Management, LLC (Cogentrix) appreciates the opportunity to comment on the *Review of Reliability Must Run and Capacity Procurement Mechanism; Final Draft Proposal for Phase 1 Items and Items under Consideration for Phase 2*, March 13, 2018. Upon review of the Final Draft Proposal, Cogentrix submits the following comments.

**I. Comments**

Cogentrix recognizes the importance of grid reliability and the fundamental logic of CAISO having the ability to “secure essential services from resources to reliably operate the grid”<sup>1</sup> in the absence of those resources availability in the market. However, Cogentrix notes with concern the increased use of backstop procurement, Reliability Must Run (RMR) agreements in particular, by the CAISO over the past two years. By their very nature, backstop procurements by the CAISO distort markets and are economically inefficient, driving out legitimate competitors and leading to higher prices for rate payers. They reduce the economic incentives for investors to innovate and improve the operating efficiency of resources that have been denied the benefit of out-of-market revenues. Ultimately, inefficient markets fail, stranding investments and causing physical interruptions of supply.

Consistent with comments in related stakeholder processes, Cogentrix opines that the increase in backstop procurement by the CAISO is symptomatic of a dysfunctional Resource Adequacy (RA) framework that does not provide essential reliability resources with sufficient market revenue to support continued investment in maintenance required to operate. Cogentrix strongly encourages the CAISO to explore and prioritize wholesale reform to the RA framework.

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<sup>1</sup> CAISO, *Review of Reliability Must Run and Capacity Procurement Mechanism; Final Draft Proposal for Phase 1 Items and Items under Consideration for Phase 2*, March 13, 2018. pg. 6

Competitive and transparent pricing of RA is critical to the efficient entry and exit of resources. With respect to backstop procurement mechanisms, RMR in particular, Cogentrix believes that more detailed studies should be completed prior to implementing a Must Offer Obligation (MOO) for resources with RMR contracts to determine the extent of the market distortions caused by the subsidized supply. In creating a MOO requirement for RMR resources, Cogentrix sees possibility of RA price suppression by resources that are already receiving cost-of-service revenue and, therefore, have no incentive to bid prices that accurately reflect their cost and profit requirements. Over the medium to long term, CAISO should expect that imposing a MOO requirement for RMR resources will continue to distort price signals, suppress RA prices and increase retirement requests and backstop procurement as a result.

Additionally, Cogentrix proposes that the CAISO evaluate incorporation of a retirement obligation into the RMR agreement. In order to maintain both system reliability and durable market signals, the CAISO should ensure that any resource awarded an RMR agreement to prevent its retirement be prohibited from reverting back to a market based resource after the term of that agreement. Investors that remain captive to market revenues must be able to accurately predict market dynamics based upon the future supply, and relying on designated retirements is a fundamental part of that market analysis.

## II. Conclusion

Cogentrix reiterates the importance of wholesale RA framework reform to establish robust price and market formation while decreasing the need for backstop procurement. Cogentrix thanks the CAISO for the opportunity to provide these comments and looks forward to its response.