

Stakeholder Comments Template

| Submitted by | Company | Date Submitted |
|---------------|-----------------------------|----------------|
| Brian Theaker | NRG Energy, Inc. ("NRG") | April 10, 2018 |

Please use this template to provide your written comments on the stakeholder initiative
"Review of RMR and CPM."

Submit comments to initiativecomments@caiso.com

Comments are due April 10, 2018 by 5:00pm

The Draft Final Proposal for Phase 1 Items and Items under Consideration for Phase 2 that was posted on March 13, 2018 and the presentation discussed during the March 20, 2018 stakeholder meeting can be found on the following webpage:

http://www.caiso.com/informed/Pages/StakeholderProcesses/Review_ReliabilityMust-Run_CapacityProcurementMechanism.aspx.

Please use this template to provide your written comments on the items listed below and any additional comments that you wish to provide.

1. Comments on phase 1 draft final proposal to make RMR units subject to a must-offer obligation.

Please indicate whether you support the draft final proposal. If you oppose the draft final proposal, please indicate the reasons for your opposition.

Comments: NRG does not support the proposal to make RMR units subject to an RA-like must-offer obligation.

The fundamental problem facing the CAISO and market participants is this: *how did 1,700 MW of capacity deemed essential to the reliability of the CAISO's system (Encina, Moss Landing and Metcalf) fail to secure Resource Adequacy ("RA") contracts?* For Encina, the answer can be found in contracting restrictions contained in Decision D.12-04-046. For Metcalf and Moss Landing, the answer may involve other more nuanced matters and issues, such as the RA program's failure to enforce sub-area local capacity requirements or the fact that capital additions are not easily recovered through one-year RA contracts or are not dealt with in the CPM risk-of-retirement provisions. As all of the CAISO Board members acknowledged at the November 2017 meeting in which it authorized the CAISO to enter into a stop-gap RMR contract with Metcalf, *the failure of the RA program to secure this needed capacity* is the fundamental problem to be solved. Instead of addressing this fundamental problem, this initiative promises to focus limited stakeholder energy on the wrong topics, namely, how to turn the RMR contract into an RA confirm and how to modify the CAISO backstop procurement mechanisms. Using a contract for a purpose for which it was not intended is an error that should neither be perpetuated nor exacerbated by trying to modify that contract to serve a purpose for which it was not intended.

The failure to secure RA contracts resulted in the CAISO awarding an RMR agreement for Metcalf to Calpine, and providing CPM designations to Moss Landing and Encina. As a result, the misguided focus of Phase 1 of this stakeholder initiative has been on taking a two-decade-old contract (the RMR contract) that was designed to provide the CAISO with access to cost-based energy when that energy is needed to meet local reliability or address non-competitive congestion, and turning that contract, simply by imposing on it an RA-like must-offer obligation (MOO), into a vehicle from which to take RA service. The CAISO's use of the RMR contract to keep Metcalf in operation, while understandable, is a misguided, or at least suboptimal, use of that agreement. The CAISO has CPM Risk-of-Retirement (RoR) provisions that it could have used to keep Metcalf in operation but chose not to use for Metcalf. If those CPM RoR provisions were unsuitable for keeping Metcalf in operation due to that plant's individual circumstances, then the CPM RoR provisions should be re-examined and modified as needed to make the CPM RoR provisions suitable for use as an RA backstop mechanism. Instead, by using the RMR contract to keep a unit that should have been procured through the RA program in operation, the CAISO and stakeholders are now engaged in a process to try to turn the RMR contract into a vehicle for taking RA service – something it was never intended to do.

The irony of this outcome is that while, at the last CAISO meeting in this initiative, ***no party claimed to want to use the RMR contract in this way again***, several of those parties nevertheless insist that the CAISO press forward with this stakeholder process to modify the RMR contract for that very purpose. This is a bad use of everyone's time and energy. This CAISO initiative should not compete with, and distract parties' energy and attention from, the

real need, which is to fix the RA process – more specifically, to adopt a multi-year forward RA structure that provides needed resources with certainty over a more rational time frame to plan and conduct needed maintenance.

In sum, NRG urges the CAISO to:

- Suspend this CAISO initiative, allowing all parties to focus their efforts at RA reform in Track 2 of the CPUC’s RA proceeding. RA reform, properly developed and implemented, should minimize or eliminate the need for any CAISO backstop mechanism, let alone two backstop mechanisms. Creating a CAISO backstop mechanism that all parties agree on and is suitable for procuring RA service simply dilutes the need to get the RA program rules right.
- Take up Phase 2 (as recommended below) *only after the CPUC has finished Track 2 of the RA proceeding*. If Phase 2 proceeds nevertheless, its only foci should be (1) to address the load migration issue for annual CPM designations, and (2) to create a single CAISO backstop mechanism. The CAISO should not have two competing and conflicting backstop mechanisms (one of which is not really a backstop mechanism, but an outdated contract that provides the CAISO with access to cost-based energy to mitigate the potential to exercise local market power).

2. Comments on phase 1 draft final proposal for ISO to provide notification to stakeholders that a resource is planning to retire.

Please indicate whether you support the draft final proposal. If you oppose the draft final proposal, please indicate the reasons for your opposition.

Comments: NRG does not object to this aspect of the proposal set forth by the CAISO, which involves providing market-wide notice of key information when the CAISO receives a retirement notice, but does not involve posting the actual retirement notice.

3. Comments on potential phase 2 items.

Section 8 of the March 13, 2018 paper discusses the items that may be candidates for phase 2 of this initiative. It includes items suggested by both the ISO and stakeholders. The ISO requests that stakeholders comment on the priorities for these potential phase 2 items.

Comments: The proposed Phase 2 items are:

1. Clarify when RMR is used versus when CPM is used
2. Consider merging RMR and CPM into a single backstop procurement mechanism
3. Review the allowed rate of return for cost-of-service (either RMR or CPM) compensation
4. Expand the CAISO’s ability to designate backstop procurement beyond local capacity needs (e.g., to resources needed to meet NERC/WECC/CAISO reliability standards or for renewables integration, or to meet flexibility needs)

5. Consider the continued need for both Condition 1 and Condition 2
6. Streamline and automate the RMR settlement process
7. Review cost allocation for RMR procurement
8. Allocating flexibility credits from RMR units
9. Modify the CPM tariff to provide for recovery of capital additions
10. Review the year-ahead CPM cost allocation to account for load migration
11. Evaluate if LSEs are using CPM as a primary means for capacity procurement

NRG offers this ranked priority list (from high to low) of, and comments on, proposed Phase 2 items:

2. Merging RMR and CPM into a single backstop procurement mechanism. This will allow the CAISO to delete items 1, 5 and 6 and to change the scope of items 7 and 8 to focus solely on the single backstop procurement mechanism. This mechanism should provide service equivalent to RA service. Items 3, 4 and 9 then should be taken up under this effort to create a single backstop procurement mechanism.

10. Review the year-ahead CPM cost allocation to account for load migration. While the cost allocation of the CAISO's backstop procurement could be taken up under the effort to produce a single backstop procurement mechanism, this issue should be less a policy matter than a timing matter and could be addressed on its own.

11. Evaluate if LSEs are using CPM as a primary means for capacity procurement. NRG strongly believes that the RMR and CPM procurement at the end of 2017 was not the result of LSEs or suppliers suddenly deciding that they now prefer these two mechanisms over RA contracts, but, in significant part, of limits placed on LSE contracting by CPUC decisions and the failure of the RA program to ensure needed resources receive RA contracts. Consequently, this effort should have the lowest priority.

4. Other Comments

Please provide any additional comments not associated with the items listed above.

Comments: