

Stakeholder Comments Template

Submitted by	Company	Date Submitted
Brian Theaker 530-295-3305 brian.theaker@nrg.com	NRG Energy, Inc. ("NRG")	February 20, 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 February 20, 2018 by 5:00pm

The Issue Paper and Straw Proposal for Phase 1 Items that was posted on January 23, 2018 and the presentation discussed during the January 30, 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 issue paper and straw proposal items listed below and any additional comments that you wish to provide.

1. Comments on phase 1 proposal to make RMR Condition 1 and 2 Units subject to a MOO for Energy and AS.

Comments:

NRG urges the CAISO to focus on the cracks in the Resource Adequacy ("RA") program that have appeared in the past several years. The RMR process should not be used to paper over the underlying problem: that resources needed for reliability are not being picked up in the RA

program. This indicates a significant problem with the design of the RA program that cannot be solved by imposing a generic Must-Offer Obligation (“MOO”) on Condition 1 and Condition 2 RMR units. The CAISO should resist the temptation to utilize the RMR process to solve resource adequacy issues.

As the CAISO noted: RMR units are already subject to must-offer requirements. Specifically, Condition 2 units are required to offer at cost-based rates (determined in accordance with formulae in Schedule M of the *pro forma* Reliability Must-Run contract) **when the CAISO requires the unit to operate in accordance with the limitations and conditions set forth in the RMR contract** (see RMR Contract Sections 6.1 (b) and 4.1 (b)). Likewise, Condition 1 units also have an implicit MOO, because the CAISO has the ability to call on those units to operate when needed **limited to the purposes set forth under the RMR contract**.

Imposing an RA-like MOO on RMR units amounts to chiseling grooves in the face of a hammer when a screwdriver is needed simply because the hammer is not a screwdriver (and perhaps the right kind of screwdriver does not yet exist). NRG respectfully urges the CAISO and stakeholders to focus instead on the real problem(s).

When the RMR contract was developed, Condition 2 was intended and designed for generating units that were required to operate under some conditions to maintain reliability (and thereby had the potential to exercise local market power), *but were unlikely to recover any significant portion of the unit’s fixed costs from the CAISO’s energy and ancillary service markets*. When Condition 2 was designed, no one could imagine that a highly efficient combined cycle unit would seek Condition 2 status. (Admittedly, at the same time, no one could imagine that the CAISO would have negative prices across afternoon hours in the spring and the fall.)

Because of this history, the RMR contract was not designed to serve as a generic mechanism to address risk of retirement. Instead, it was intended to address the potential exercise of local market power. The RMR contract served a necessary purpose during the start-up of the CAISO’s markets, but should have been abandoned following the implementation of the Resource Adequacy program and the implementation of local market power mitigation in the CAISO’s energy markets. The use of RMR contracts to keep critical reliability units not subject to an RA contract in operation must be viewed as an indictment of the RA program, not of the RMR contracting process. Tweaking one part of a complex contract to make it better suited for a purpose it should not have been used to begin with for is a second wrong that makes nothing right.

The Section 4.1 (b) limitations on the CAISO’s use of the RMR contract were carefully and painstakingly negotiated, as were all the other provisions restricting the CAISO from using RMR units for purposes other than for what they were required. The MOO present in the Condition 2 RMR contract ensures that the Condition 2 resource is used for the purposes reserved under

the contract and provides some modest credit back against fixed costs payments for energy that is economic *when the unit is needed for reliability*. The same can be said for the “implicit” MOO present for Condition 1 (i.e., the narrow RMR “MOO” is the CAISO’s right to dispatch energy from the Condition 1 unit when that unit is needed for local reliability or non-competitive congestion). Adding a generic MOO to the RMR contract either for Condition 1 or Condition 2 completely upends the fundamental purpose and nature of the agreement.

Unquestionably, it is both bizarre and telling that an efficient unit like Calpine’s Metcalf facility is under a Condition 2 RMR contract and not an RA contract. This curious outcome points to fundamental flaws in the RA program, the backstop risk of retirement mechanism, or both. The CAISO has made clear that existing RMR contracts will not be affected by this stakeholder process, so the purpose of adding a MOO to a contract that, by all rights, should not be used as an RA surrogate is unclear.

In sum, simply bolting a generic MOO on to the RMR contract would upset the balances carefully designed and negotiated into that contract. Instead, the CAISO and stakeholders should focus on fixing the fundamental RA paradigm problems that led to the RMR contract being used in this way.

2. Comments on potential phase 2 items listed in issue paper and straw proposal.

Comments:

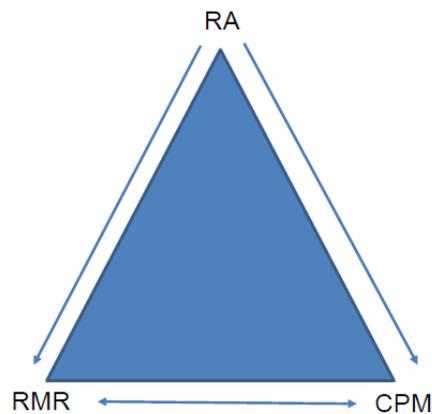
The CAISO has proposed the following Phase 2 items:

- RMR and CPM
 - Clarify when RMR is used versus CPM procurement
 - Explore whether RMR and CPM can be merged
 - Review allowed rate of return on capital for RMR and CPM
 - Explore expanding RMR and CPM tariff authority
- RMR
 - Consider whether both Condition 1 and 2 units are needed
 - Review cost allocation
 - Streamline and automate RMR settlement process
 - Lower banking costs associated with RMR invoicing
 - Expand designation authority to include flexibility needs
- CPM
 - Align CPM tariff to RMR rules to allow recovery for needed capital additions
 - Review cost allocation

NRG is not opposed to any of these proposed Phase 2 items *per se*. However, the CAISO should not utilize RMR arrangements (however constituted) to undercut the CPM or RA programs. Doing so would constitute a collateral attack on those programs and further undermine the integrity of the already fragile CAISO market.

NRG is strongly opposed to proceeding with Phase 2 except in conjunction with a simultaneous and holistic review of the RA program.

Further, NRG is concerned that the CAISO's presentation at the January 30, 2018 meeting could be read as suggesting that RMR contracts can be a substitute for RA or CPM awards:



While the RA, RMR and CPM mechanisms are interrelated, they serve very different purposes. The nearly two-decade-old RMR contract was never intended to serve a Resource Adequacy purpose. By contrast, the RMR program is a local reliability product that is intended to prevent the exercise of local market power by ensuring the CAISO access to cost-based energy when that energy was needed for local reliability or to manage non-competitive congestion. If the RMR contract had been intended to serve a Resource Adequacy purpose, the narrow conditions under which the CAISO could call on energy under the contract would have been completely inadequate for that purpose.

The creation of the RA program in the mid-2000s and the implementation of market power mitigation within the CAISO's energy market should have rendered the RMR contract largely obsolete. Following the implementation of the RA program, no RMR contracts should have been awarded; certainly not to address bulk power system resource adequacy issues. However, since the RMR program has recently been used to address some of the serious problems with the RA framework, modifications to the RMR contract cannot be considered in isolation without also considering changes to the RA framework. Because the RMR program works for its narrow intended purpose, the CAISO and stakeholders should be ensuring that generators needed for resource adequacy are compensated through the underlying *RA program or the CAISO's backstop authority – not through the RMR contract.*

To reiterate, while NRG has no comments on any of the items proposed for Phase 2, NRG is strongly opposed to moving forward with any of the Phase 2 items outside of a simultaneous consideration of changes to the RA framework.

3. Suggested additional items for phase 2 that are not listed in issue paper and straw and why the items need to be addressed.

Comments:

See answer to question 2.

4. Other Comments

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

Comments:

At the January 30, 2018 meeting, some stakeholders seemed to suggest that some provisions of the Offer of Settlement transmitted to FERC on May 26, 2015 in Docket No. ER15-1783 had been “tripped”. Those provisions are below (NRG’s emphasis):

5.2. The CAISO will monitor the use of the CPM to ensure that load serving entities are not relying on the CPM as a primary means of capacity procurement to meet Resource Adequacy obligations, which the Supportive Stakeholders and the CAISO agree is an inappropriate use of the CPM. The first time either of the two following conditions occur the CAISO will open a stakeholder initiative to explore whether load serving entities have relied on the CPM, to an unacceptable extent, as a primary means of capacity procurement:

- 1) Within a rolling 24-month period, the same load serving entity twice relies on the CPM to meet any Resource Adequacy deficiency (either in an annual or monthly Resource Adequacy plan).
- 2) Any load serving entity meets more than 50 percent of its annual or monthly Resource Adequacy obligation for a year or month, respectively, with CPM Capacity procured by the CAISO on that load serving entity’s behalf.

NRG agrees that certain LSEs have relied on the CPM backstop to meet RA deficiencies. In NRG’s view, that recent reliance reflects other regulatory constraints placed on LSEs far more than it might reflect the sudden transformation of the CPM mechanism to becoming an attractive or preferred mechanism to meet LSE RA needs. As a result, should the CAISO feel compelled to re-examine the CPM structure, it must consider whether (1) this recent undue reliance on CPM gives rise to the need to fundamentally reform the RA process, and (2) the CPM pricing is sufficient to dissuade LSEs from relying on CPM to meet their RA obligations.