Stakeholder Comments Template

Submitted by	Company	Date Submitted
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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 August 7, 2018 by 5:00pm

The June 26, 2018 Straw Proposal and the presentation discussed during the July 11, 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.

General approach to the policy proposed in this initiative

SCE recognizes both the RMR and CPM mechanisms to be explicitly reliability mechanisms. The goal of a reliability mechanism is to assure the CAISO that its need will be met when the resource is called upon. As such, a resource's performance should be measured based on its availability. The resource should not hinder any CAISO dispatch through either not following instruction or self-scheduling or any other behavior.

As a general matter, the CPM and RMR mechanisms developed to address annual reliability needs should be established in a manner that does not provide incentive to seek out such a mechanism over an RA contract while at the same time providing reasonable revenue to such resources so as not to operate at a loss, including not only energy costs but investment costs as well. Since the resource is being used effectively to provide the same services that RA would provide, the RMR and CPM products should have sufficient incentives in them to provide the necessary reliability service.

Consequently, a resource's penalty for non-performance should be commensurate with the reliability award. If the CAISO sets a penalty too high, a resource could be bankrupted by getting penalized. However, if the CAISO sets a penalty too low, a resource can collect the award and absorb the penalty rather than respond to dispatch. In either case, the CAISO's reliability need is not met and unnecessarily incurs costs for ratepayers. Logically, the appropriate penalty for non-performance in any reliability mechanism should be set close to or equal to the award. Thus, a clawback of all revenues is an appropriate penalty for a non-performing resource.

Finally, since these are reliability mechanisms, the resource costs should be appropriately covered and no market rents should be retained. Under RMR, a resource is getting its cost of service payment and is an annual contract. On the other hand, the CPM designation, the duration can be monthly or annual. While SCE does not object to the current CPM payment structure for CPM issuances with a 30 to 90 day duration, the use of this mechanism for 12 month issuances, is not logical as such issuances are primarily substitutions for RA failures. As such, the 12 month CPM issuance should either be folded into the RMR structure or be priced identical to the RMR structure. That is, unlike the current CPM, where a resource can demonstrate its costs at the FERC, or resort to the CAISO offer of GFFC+20%, the 12 month CPM would be a cost of service including a rate of return with forfeiture of the market rents consistent with the RMR structure

Herein lies the issue of commensurate compensation. If a resource is only awarded a monthly CPM designation, this is not an assurance of a long-term contract. The resource has to shoulder risk for a larger proportion of a year if it only receives a monthly CPM. Allowing the resource to be compensated higher is reasonable since there should not be any long term distortions from a short term contract. Thus, GFFC+20% and retention of energy rents is acceptable only for monthly CPM awards. However, an annual CPM designation eliminates the market risk a resource has to face by covering the costs of the resource for the entire year. To have two different contracts of the same duration, annual CPM and annual RMR, be compensated differently is an invitation for resources to show preference for the contract with higher compensation. In this case, the annual CPM, with its allowance of energy rent retention, is potentially providing a better return than the RMR.[1] The only option to make the annual CPM

[1] SCE notes that since the inception of the competitive solicitation for CPM, prices have averaged above $6.00/kW/Month with prices regularly hitting the soft offer cap of $6.31/kW/Month. Such prices suggest that there is a lack of competition for CPM.

comparable to the annual RMR, is to have the same energy rent clawback and the same payments.

In sum, the problem with the CAISO proposal is not with the monthly CPM, which is not comparable to the RMR. The problem is with the annual CPM. The annual designation bears similar risk to the RMR due to its similar duration, and if allowed to have a better compensation, through energy rent retention, will be the award of choice for resources. Not only will this compromise the ability of the CAISO to use the RMR appropriately, but it will also compromise the RA mechanism by encouraging resources to attempt to secure an annual CPM designation over all other participation.

1. <u>Comments on June 26, 2018 straw proposal.</u>

<u>RMR and CPM</u>

a. Provide notification to stakeholders when a resource informs ISO it is retiring

   Comments: [Insert comments here]

b. Clarify when RMR procurement is used versus CPM procurement

   Comments: Given the observation, earlier, that resources may show preference for an annual CPM, it would be prudent for the CAISO to eliminate any annual CPM. This would eliminate any incentive for resources to inappropriately seek an annual CPM when they would be more suited for a RMR. This will allow the CAISO to use the RMR as intended and not compromise the RA mechanism.

c. Explore whether Risk of Retirement CPM and RMR procurement can be merged into one procurement mechanism

   Comments: SCE feels it may be more effective to merge the two mechanisms. This would prevent the risk of inappropriate use of one mechanism over the other.

d. Evaluate compensation paid for RMR and CPM services

   Comments: The compensation for annual CPM and annual RMR should be set such that resources do not show preference for one over the other. Again, the monthly CPM is not the problem in the proposal. It is the same duration contract, the annual CPM, which creates a conflict with the annual RMR. Since both these mechanisms are explicitly for reliability, the compensations should also be similar. The penalties should also be consistently applied between the mechanisms. Thus, while RAAIM may not be directly applicable on RMR, the non-performance penalty should be RAAIM-like. If the CAISO cannot apply an appropriate penalty on RMR, it should not, in turn, expect any reasonable service from an RMR unit.

If the two mechanisms remain unmerged, the CAISO should, at least, cap the CPM compensation (GFFC+20% adder) at cost of service, similar to RMR. This will ensure parity between the two mechanisms.

Finally, the CAISO should allow sufficient robustness, such that future changes in market design are easily incorporated and loopholes are considered. An example of future market design changes is the ongoing stakeholder initiative proposing elimination of RUC[2]. CPM resources should not be allowed to retain market revenues, whether through a $0 bid and $0 compensation in RUC or through revenue clawback if RUC is eliminated. On the other hand, an example of a loophole would be a RMR resource bidding below cost to get committed in the market and then collecting BCR. BCR has an adder above cost that the resource could then collect and retain.

In sum, both CPM and RMR should have consistent compensation that does not allow market revenue retention, and consistent non-performance penalties, with non-performance determination solely based on lack of resource availability.

RMR

e. Develop interim pro forma RMR agreement, i.e., change termination and re-designation provisions

   Comments: [Insert comments here]

f. Update certain terms of pro forma RMR agreement

[2] Day Ahead Market Enhancements

i. Remove AS bid insufficiency test and revise dispatch provisions to align with current market design

Comments: [Insert comments here]

ii. Update Schedule M and Schedule C to include GHG compliance cost calculation, DAM and RTM gas price index, and updated SC charge calculation

Comments: [Insert comments here]

iii. Update Schedule M to be consistent with bidding rules in ISO tariff and BPM

Comments: [Insert comments here]

iv. Seek input on defining a heat rate curve formula in Schedule C for multi-stage generator resources

Comments: [Insert comments here]

g. Update allowed rate of return on capital for RMR compensation

Comments: [Insert comments here]

h. Make RMR resources subject to a must offer obligation

Comments: As stated in other parts of these comments, the MOO should be consistent between RMR and CPM resources with consistent non-performance measurement (based on availability) and penalties (based upon compensation).

i. Make RMR resources subject to the Resource Adequacy Availability Incentive Mechanism

Comments: SCE supports RAAIM-like performance incentives, as stated in other parts of these comments. The penalty mechanism should not be a fixed price but rather a claw-back of the contract payments commensurate with the period of unavailability. The CAISO should develop a standard for maintenance outages that if the outage request is approved by the CAISO, would not result in a contract revenue claw-back.

j. Consider whether Condition 1 and 2 options are needed for RMR

Comments: [Insert comments here]

k. Ensure RMR designation authority includes system and flexible needs

Comments: All attributes of a resource should be considered procured, even if the procurement decision is for only a specific attribute. Thus, if a flex resource is procured for a non-flex reason, the flex attribute is still procured by the CAISO and should be allocated. In addition, the must-offer obligation should be for the resource to bid economically for all resources to ensure appropriate market outcomes. The bid should be set at the default energy bid for the resource to appropriately reflect its marginal cost in the optimization of the market. SCE notes that there will be certain periods that the default energy bid may not be appropriate such as during the late night/early morning hours to avoid the optimization cycling a resource unnecessarily.

l. Allocate flexible RA credits from RMR designations

Comments: As stated above, all attributes of a procured resource should be allocated, regardless of the reason for procurement.

m. Streamline and automate RMR settlement process

Comments: [Insert comments here]

n. Lower banking costs associated with RMR invoicing

Comments: [Insert comments here]

CPM

o. Evaluate year-ahead CPM local collective deficiency procurement cost allocation to address load migration

Comments: The CAISO cited the June 2018 CPUC decision requiring all LSEs to participate in the year-ahead RA process, as largely addressing this issue. SCE agrees, but cautions that should there be any changes pertinent to all LSE participation in RA, the CAISO should revisit this topic.

p. Evaluate if load serving entities are using CPM for their primary capacity procurement

Comments: [Insert comments here]

2. Other Comments

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

Comments: 1. Procurement timing – SCE is concerned that late procurement of RMR can cause conflicts with annual RA showings. SCE urges the CAISO to holistically consider the RA process when determining the process timelines for the RMR and CPM mechanisms. RMR decisions should be made well before or after the RA process so that LSEs can appropriately account for RMR resources in their procurement activities.

2. Efficient dispatch – Given that the reliability resources are procured at cost of service, the CAISO should make every effort to avoid unnecessary costs. This is especially critical for ULRs but in general, is appropriate for all resources. This includes recognizing the limitation of the CAISO optimization to make commitment decisions beyond 24 hours and mitigating unnecessary cycling of units when it may be more efficient to keep them committed between days.