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 "Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements."

Submit comments to InitiativeComments@CAISO.com

Comments are due October 4, 2017 by 5:00pm

The Draft Final Proposal posted on September 13, 2017 and the presentations discussed during the September 20, 2017 stakeholder conference call can be found on the CPM ROR Website.

Energy Division Staff (hereafter, "ED Staff" or "Staff") appreciates the opportunity to comment and provide input on this initiative. ED staff supports some of the changes that were made including capital addition clarifications and the coordination of RA credits with the Local Regulatory Authority (LRA). However, Staff remains concerned the the Draft Final Proposal is front running the bilateral procurement process and creates opportunities for market manipulation.

Please use this template to provide your written comments on the Draft Final Proposal and any additional comments that you wish to provide.

1. Please indicate whether you support the Draft Final Proposal.

Comments:

ED Staff does not support the Draft Final Proposal for the following reasons.

1. Including an April window to the Capacity Procurement Mechanism (CPM) Risk of Retirement (ROR) process results in front running the RA process.
2. The proposed attestation is not stringent enough to ensure that price discovery behavior will not occur in the April window.
3. This initiative needs to be better coordinated with the Reliability Must Run (RMR) process and Temporary Suspension of Resource Operations (TSRO) stakeholder initiative.

1. Including an April Window to the Capacity Procurement Mechanism (CPM) Risk of Retirement (ROR) process results in front running the RA process.

As indicated in prior comments to this initiative, ED staff remains concerned that moving a CPM ROR determination to a date prior to the conclusion of the year-ahead procurement process will result in front running the RA bilateral procurement process.

In its prior iteration of this proposal, the CAISO proposed that in order to mitigate front running the RA program its April Window would require that a generator demonstrate that their costs are above the CPM soft offer cap. Specifically, the CAISO's draft tariff language says that for a "Type 2" Risk of Retirement designation, the resource must demonstrate "that it is unlikely to be procured as resource adequacy for the next compliance year because its annual fixed revenue requirement calculated in accordance with Schedule F to the pro forma RMR agreement in Appendix G of the CAISO Tariff exceeds the price specified in the Section 43A.4.1".[1]

In its final proposal, the CAISO has removed the requirement that the generator demonstrate that its costs exceed the soft offer cap of $6.31 kW/month. This requirement has been replaced by an attestation that the generator's costs are above $4.19 for "Local RA" and $3.00 for "System RA" (these values are based on the 85th percentile price from the 2016 RA Report). The CAISO states that "this requirement will help ensure that only resources that are less likely to receive an RA contract will be eligible for a Type 2 designation. This change provides an option for resources to use the April window and not have to wait until the November window to seek a designation."[2]

This change to the proposal does not further mitigate the issue of front running the RA procurement process. If anything, it does the opposite by lowering the burden on the generator to no longer **demonstrate** (through a pro forma F schedule) that its costs are above $6.31 kW/month (the soft offer cap) but to **only attest** that its costs exceed $4.19 kW/month for local and $3.00 kW/month for system.

[1] August 8, 2017 Revised Straw Proposal p. 21
[2] September 13, 2017 Draft Final Straw Proposal p. 8

As a hypothetical example, if a new transmission project (to a locally constrained area) has been delayed, resource(s) in the surrounding area may have an incentive to see if they have market power due to this delay. This resource(s) would typically have been picked up through a competitive solicitation or a bilateral agreement, however, if the CAISO provides the resource a ROR CPM designation then it knows it is needed and will therefore choose the procurement vehicle that yields the greater revenues. Since an ROR CPM designated resource has no competition, it may very likely use market power to inflate prices offered into all required procurement solicitations.

2. **The proposed applicant attestation requirement is not stringent enough to ensure that price discovery behavior will not occur.**

The proposed attestation has been modified from the original attestation requirement in two key ways that may lead to price discovery behavior. First, the attestation has been modified to:

> provide that a resource that has applied for but is not awarded a CPM ROR designation need not retire if the resource: 1) is subsequently sold to a non-affiliated entity; 2) receives a RA contract; or 3) is procured by the CAISO through CPM, Reliability Must-Run ("RMR"), or any other applicable capacity procurement mechanism.[3]

The current attestation requirement requires that the resource's decision to retire is definite unless CPM procurement occurs. Adding additional reasons for a generator to not have to indefinitely retire, lowers the attestation burden on the generator.

Secondly, the general attestation requirement no longer contains the original language that requires the resource owner to submit an affidavit at least 180 days prior to terminating it Participating Generation Agreement (PGA), attesting it will be uneconomic for the resource to remain in service and that the decision to retire is definite unless CPM procurement occurs.[4] The current Business Practice Manual language states that the affidavit must include the following supporting information and documentation:

1. The expected PGA termination date for the resource(s). This date must be a least 180 days after submission of the request for a risk of retirement CPM designation.

2. A description of power purchase agreements and capacity contracts currently in effect (if any), including the term length, volume and pricing provisions.

3. A description of the term, length, volume, and pricing provisions of existing fuel supply contracts.

[3] September 13, 2017 Draft Final Proposal p. 4

[4] CAISO Tariff section 43.2.6

4. Any analyses the resource owner performed, or had performed, to determine whether it is economic/uneconomic for the resource to remain in service during the current year including supporting documents.

5. Any document(s) confirming the formal decision of the Board of Directors, officers, or management of the resource owner, as appropriate, that the resource will be retired unless CPM procurement occurs (Business Practice Manual section12.6.4)

The Business Practice Manual also provides that the ISO may request additional information and documentation so that it can perform its technical assessment. This information may also be reviewed by the Department of Market Monitoring:

> If the Department of Market Monitoring suspects that the resource's submission involves false information or market manipulation, then it may refer the suspected market violations to FERC's Office of Enforcement. A CPM designation by the ISO may occur irrespective of any potential review or action DMM may take regarding the resource's submission.[5]

ED Staff is concerned that the complete removal of these Business Practice Manual requirements (stated above) from the application process will lead to price discovery behavior. What is to prevent all generators from seeing if they are needed and have market power, before entering into a LSE's request for offers? ED Staff believes the Business Practice Manual language as currently written is critical to safe guarding ratepayer interests.

3. This initiative needs to be better coordinated with the Reliability Must Run (RMR) process and Temporary Suspension of Resource Operations (TSRO) stakeholder initiative.

As noted in the TSRO comments and prior comments on this initiative, ED Staff believes that the TSRO and RMR processes need to be looked at in coordination with this initiative in order to arrive at an optimal solution. Looking at these processes in isolation from each other will likely lead to inefficiencies or unintended consequences for ratepayers**.**

[5] Business Practice Manual 12.6.4 (implementing tariff section 43.2.6)