Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements

Draft Final Proposal

September 13, 2017

Market & Infrastructure Policy

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1. Executive Summary

In the *2017 Stakeholder Initiatives Catalog* process, there was considerable interest from stakeholders in enhancing the California Independent System Operator's ("CAISO") capacity procurement mechanism ("CPM") process for "backstop" procurement of resources that are needed for reliability but are at risk of retirement ("ROR").[1] These retirements may be driven by the failure of a resource to earn sufficient revenues when not procured by a load-serving entity ("LSE") for resource adequacy ("RA") capacity. The process for the CAISO to procure such ROR resources through its CPM backstop procurement authority is contained in section 43A.2.6 of the CAISO tariff.[2]

In 2016, the CAISO committed to conduct a stakeholder initiative in 2017 to explore potential enhancements to its existing ROR backstop procurement process. Under the backstop process, the CAISO may designate a CPM procurement to a resource that is at ROR during the current RA compliance year if that resource will be needed for reliability by the end of the next RA compliance year. The CAISO is interested in exploring clarifications and modifications that will enhance the current process.

This draft final proposal describes the plan for stakeholder engagement, scope and background of the initiative, stakeholder written comments received and CAISO responses, changes from the revised straw proposal, and the draft final proposal.

The key elements of the draft final proposal are described below.

- Any resource can apply for a CPM ROR designation, including a resource that is currently a RA resource, but capacity cannot be both RA capacity and CPM capacity at the same time.
- There will be two windows each year for resources to submit an application for a CPM ROR designation: one in the first half of the year and one in the second half. The deadline for first window cannot be before April 15 or later than June 30. The deadline for the second window will be after the deadline for LSEs to submit their year-ahead annual RA plans to the CAISO.
- If a resource at ROR is found to be needed for reliability, the CAISO will post a report no sooner than 30 days after the close of the window and stakeholders will have no less than seven days to comment on the report's findings regarding proposed Type 1 and Type 3 designations and no less than 14 days to comment on proposed Type 2 designations.
- LSEs will have an opportunity to procure a needed ROR resource before the CAISO procures the resource through its CPM ROR mechanism. If the CAISO finds that a ROR resource is needed for reliability, LSEs will have until 30 days following the end of the

[1] The CAISO's webpage for the stakeholder initiatives catalog process is available at 2017 Catalog.
[2] Refer to section 43A, applicable after November 1, 2016, available at CAISO CPM Tariff.

stakeholder comment period to procure the resource if the designation is Type 1 or Type 3. If the designation is Type 2, LSEs will have until 10 days before the start of the new RA Compliance Year to procure the resource. Thereafter, if not procured by a LSE that resource can be procured under the CAISO's CPM ROR authority.

- There are general requirements that apply to both CPM ROR request windows. However, there are additional requirements for CPM ROR Type 2 designations in the April window.
- The CAISO proposes to modify the attestation requirement 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.
- Depending on the type of CPM ROR designation being sought, the applicant has different obligations to offer its capacity into applicable competitive procurement solicitation processes for the RA year.
- If the CAISO finds that a ROR resource is needed for reliability, the CAISO will communicate its intent to designate the resource as CPM ROR in its report. However, the intent to designate is conditional. For example, if an LSE subsequently procures the resource as RA, the CAISO would not designate the resource as CPM ROR.
- The CAISO will add selection criteria to address situations where there are multiple resources simultaneously seeking a CPM ROR designation, but the CAISO does not need to designate all of the resource as CPM all of the resources to meet the identified reliability need.
- The CAISO will clarify the tariff to indicate that the CAISO will pay resources designated as CPM ROR designation will be paid based on a "balance of the year" concept or a 12-month term, depending on the specific circumstances of the designation. Consistent with the existing tariff, payment for each month of the designation will be based on a calculation of 1/12 per month of the annual compensation amount.
- A resource that has been awarded a CPM ROR must make a filing at the Federal Energy Regulatory Commission ("FERC") to justify its costs, and FERC will decide the resource's price and level of compensation.
- The CAISO retains existing tariff language that allocates the cost of a CPM ROR designation to all Scheduling Coordinators (SCs") for LSEs that serve load in the TAC area(s) in which the need for the CPM ROR designation arose.
- The CAISO will provide LSEs that are allocated ROR CPM costs credit towards their RA obligations, and will coordinate with the California Public Utilities Commission ("CPUC"), other Local Regulatory Authorities ("LRAs"), or federal agencies with jurisdiction over the

LSE on whose behalf a credit will be provided to determine whether the LSE should receive credit toward its RA requirements adopted by such agencies or authorities.

- Capacity designated as CPM ROR must meet day-ahead ("DA") and real-time ("RT") availability requirements for system, local and flexible capacity specified in section 6 of this proposal.
- If the CAISO grants a resource's request for a ROR CPM designation, the owner must accept the designation except in a few limited circumstances.

Appendix 1 contains draft tariff language reflecting the draft final proposal for the CPM ROR tariff sections.

2. Plan for Stakeholder Engagement

The schedule for this stakeholder initiative is presented in Table 1 below. The CAISO plans to present its final proposal to the CAISO Board of Governors for their approval on November 1-2, 2017.

Table 1 – Schedule for CPM ROR Stakeholder Initiative

Step	Date	Milestone
Kick-off	April 26, 2017	Issue market notice announcing this new initiative
Issue Paper	May 10	Post issue paper
	May 18	Hold stakeholder working group meeting
	May 25	Hold stakeholder working group meeting
	Jun 6	Stakeholder written comments due
Straw Proposal	Jun 20	Post straw proposal
	Jun 27	Hold stakeholder call
	Jul 12	Stakeholder comments due
Revised Straw Proposal	Aug 8	Post revised straw proposal
	Aug 15	Hold stakeholder call
	Aug 28	Stakeholder comments due
Draft Final Proposal	Sep 13	Post draft final proposal
	Sep 20	Hold stakeholder call
	Oct 4	Stakeholder comments due
Final Proposal	Nov 1-2	Present proposal to CAISO Board for approval

3. Scope of Initiative and Background

The CAISO's current ROR CPM provisions are limited to resources that did not receive an RA contract for the upcoming RA year. Some resource owners have expressed a concern that this process is problematic because resource owners do not know whether their resource will have a RA contract until October 31 of the current year. The initiative will look at process enhancements that would provide for the ROR analysis to take place prior to the end of the RA contracting period. In addition, there is a need for provisions to address issues related to multiple resources that meet the same reliability need requesting a ROR backstop designation for the same period even though the CAISO does not need all of the resources.

Under the current tariff, the CAISO has the authority to designate CPM capacity to keep a resource in operation that is at ROR during the current RA compliance year and will be needed for reliability by the end of the calendar year following the current RA compliance year. During the current RA compliance year, the CAISO cannot procure a resource under the CPM ROR provisions if the resource is already contracted as RA capacity or listed as RA capacity in any LSE's year-ahead RA plan.[3] This is based on the CPM principle that RA capacity cannot be CPM capacity at the same time. Stakeholders have generally interpreted this requirement as precluding a resource that is currently RA from even applying for a CPM ROR designation while they are RA, but a close reading of the tariff shows there is no such express requirement. As discussed *infra,* to eliminate any confusion, the CAISO intends to clarify the tariff language to indicate that any resource can apply for a ROR CPM designation, even if it is RA at the time it submits its request.

A more detailed discussion of the scope of this initiative, and background information on the CAISO's current CPM tariff authority, was provided in the June 20, 2017 straw proposal and will not be reproduced here. See June 20, 2017 Straw Proposal.

4. Stakeholder Comments and CAISO Responses

This section provides a summary of the written stakeholder comments that were received on the August 8, 2017 revised straw proposal, as well as the CAISO's responses to those comments. The full version of the written stakeholder comments that were received is provided in Appendix 2.

1. Who Can Apply

Most stakeholders support the CAISO clarifying that any resource, including a resource that is currently RA, can apply for a CPM ROR designation. A few stakeholders requested that the CAISO clarify if there are any conditions regarding timing and whether there may be a gap in which a resource cannot request any CPM ROR at all.

CAISO Response – The CAISO further clarifies in this draft final proposal how any resource, including a resource that is currently RA, can apply for any of the three types of CPM ROR designations. The draft final proposal recognizes that RA contrary may be partial year or carry over into another year. The CAISO does not wish to preclude a supplier that has a contract like this from being able to apply for a CPM ROR designation. However, it might affect the term of any CPM ROR designation. Accordingly, the CAISO clarifies its proposal to provide that a balance of year designation might be appropriate for certain circumstances, with the designation commenting after the last month in which the resource is RA. This will eliminate any potential gap in a resources' ability to request and receive a CPM ROR designation.

[3] Tariff section 43A.2.6 (1).

2. Timing of Requests for Designation - Windows

Several stakeholders do not support the addition of the April window because they believe that adding the window will front run the annual RA procurement process, and a designation mid-year will eliminate a resource's incentive to bid competitively when it knows it can receive cost-of-service recovery, effectively setting a floor price for the resource. Some stakeholders express concern that a designation in the April window will not help LSEs in meeting RA obligations due to the timing of the CAISO procurement. One stakeholder recommends the CAISO allow resources to request Type 1 and 2 designations in a single application.

CAISO Response – The CAISO describes in this draft final proposal several provisions that it believes will ensure that the CPM ROR designation process does not unduly interfere with the RA process. These provisions are described in the draft final proposal section of this paper in the subsection that describes the April window. The CAISO has included in this draft final proposal a provision that allows resources to request Type 1 and 2 designations in a single application.

3. Process for Study and Procurement

Several stakeholders requested additional detail on the types of reliability studies that the CAISO will perform, how the CAISO conduced the studies, what study assumptions and analysis the CAISO used to support the determination of need, and the content of the study report. Stakeholders also requested clarification on the types of resources that the CAISO will consider in the study, how new resources would be considered as an alternative to the resource seeking a designation, and clarification regarding the requirement that "no new resource is projected to be in operation by the month of the identified need." A few stakeholders requested additional information in the designation report so that it is clear why a resource was designated. One stakeholder recommended extending the seven day comment period to 14 days following the study report. One stakeholder asked for additional clarity on whether the CAISO would choose to not procure a resource if no LSE procures the resource. One stakeholder suggested requiring the resource to issue a solicitation for bids at the same time the study report is issued, with the resource required to accept bids up to the max NQC/EFC of its capacity in descending order of price subject to an independent monitor. One stakeholder requested that the CAISO clarify the must-offer obligations for a designated CPM ROR resource, including whether there are system, local and flexible must-offer obligations.

CAISO Response – In this draft final proposal, the CAISO has provided additional detail on the types of reliability studies that will be performed, how the studies will be done, the study assumptions and analysis that will be used to support the determination of need, and the content of the study report. The CAISO has also provided clarification on the types of resources it will consider in the study, how new resources will be considered as an alternative to the resource seeking a designation, and the requirement that "no new resource is projected to be in operation by the month of the identified need." The CAISO is not proposing any additional information for inclusion in the designation report beyond what is currently provided in the tariff, as the CAISO believes the current designation report, in conjunction with the study report that will have been issued previous to the designation report, will adequately explain why the resource was designated. The CAISO has changed its proposal for a Type 2 designation so that stakeholders will have 14 days to provide comments following the issuance of the study report. The CAISO clarifies herein that if an LSE did not procure ("cure") a CPM ROR designation proposed by the CAISO in its CPM ROR report, the CAISO may procure the resource as a CPM ROR resource. The CAISO is not proposing to require a resource to issue a solicitation for bids at the same time the study report is issued. The CAISO has added a section to this draft final proposal that describes the must-offer obligations of CPM ROR resources.

4. Application Requirements, Timelines and Reliability Studies

Several stakeholders asked that the CAISO clarify the start and stop dates of the two proposed windows and synch up the language in the tariff with what is being proposed to be in the BPM. Several stakeholders do not support the requirement that to be studied in the April window a resource's costs must exceed the CPM soft-offer cap. They believe this provision forces resources to wait until the November window to seek a designation, effectively negating one of the primary reasons why resources sought a change in the CPM ROR process. One stakeholder believes that forcing resources to prepare an expensive and detailed Schedule F cost-of-service study for the offer price for the application is unduly burdensome and unreasonable, and suggests that the CAISO consider requesting resource owners to develop and submit cost-of-service information after it is clear that the resource is potentially needed for reliability. One stakeholder asked the CAISO to clarify how the CAISO will assess which resources are expected to retire and which are not expected to retire. Several stakeholders do not believe it is necessary to require that a requesting resource demonstrate that its costs are above the soft-offer price cap. They question whether the CAISO should filter out less expensive but similarly qualified resources from the process. One stakeholder suggested requiring the requestor to pay for the cost of the study. One stakeholders asked the CAISO to clarify the binding offer price requirement in the application process for both the April and November windows, and how that offer price will be used. One stakeholder asked if it would be appropriate for the "uniquely situated" standard apply to all designation types.

CAISO Response – In this draft final proposal, the CAISO has clarified the proposed dates of the two proposed windows and explained how the language in the tariff works with the language that will be in the Business Practice Manual ("BPM"). The CAISO has changed the cost threshold requirement to be studied in the April window for a Type 2 designation. The criteria will no longer be that a resource's costs must exceed the CPM soft-offer cap. Rather, the CAISO now proposes that to be eligible to receive a Type 2 CPM ROR Designation, the applicant must attest in the affidavit that it reasonably believes the resource's annual fixed costs meet or exceed the following prices, which are derived from the CPUC's 2016 RA Report: (1) if the resource is located in a Local Capacity Area as defined in the tariff $50.28 kW-year; or (2) if the resource is not located in a Local Capacity Area as defined in the tariff $36.00 kW-year. 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. This attestation does not require an applicant to complete an Annual Fixed Revenue Requirement calculation as provided in Schedule F at the time it submits its request for an ROR CPM designation. In this latest proposal the CAISO has clarified how the CAISO will assess which resources are expected to retire and with are not expected to retire. The CAISO is not proposing that the applicant pay for the cost of the study. In this latest proposal the CAISO has clarified the binding offer price requirement in the application process for both the April and November windows and how that offer price will be used. The CAISO is proposing to use the "uniquely situated" standard only for the Type 2 CPM ROR designation.

5. Selection Criteria when there are Competing Resources

Most stakeholders support the proposed selection criteria. One stakeholder recommends that the CAISO consider how the reliability assessment for Type 2 and Type 3 CPM ROR designations with a local area or providing system support are evaluated together to ensure that resources with the best characteristics are granted the designations.

CAISO Response – The CAISO continues to support the selection criteria proposed in the revised straw proposal. One commenter states that the CAISO should evaluate Type 2 and Type 3 designations together to ensure that resources with the best characteristics and lowest costs are granted designations, because the CAISO might grant a resource a Type 2 designation in April but a better, lower cost resource might appear in the November window that the CAISO would be unable to designate because it already selected a resource in the April window. This scenario cannot happen under the CAISO's proposal because the CAISO cannot issue a Type 2 designation if there is more than one resource that can meet the identified reliability need. So there cannot be a better or least costly resource than the resource that receives a Type 2 designation.

6. Term and Monthly Payment Amount

Most stakeholders agree with the terms and monthly payments for the various types of designations. One stakeholder believes that setting a minimum term of 12 months may not allow resources that have contracts ending between January 2018 to April 2018 to apply or be designated as CPM ROR under the 2017 windows, which would not be an optimal outcome.

CAISO Response – The CAISO continues to support its previous proposal for the terms and monthly payment amount for CPM ROR designations. The CAISO has revised its proposal to reflect circumstances where a resource might be RA, RMR or CPM for some months of the year and thus eligible to a balance of year designation rather than a full 12-month designation may need to occur.

7. Cost Justification

Most stakeholders support using cost-of-service as the pricing mechanism for a CPM ROR even if it the price is lower than the soft offer cap, including using Schedule F to the pro forma RMR agreement to determine costs. Several stakeholders do not support including major maintenance costs or capital additions in the determination of the price and ask the CAISO to clarify how such costs would be treated. One stakeholder questions why a bridge payment designed to keep a resource afloat for a short period of time should be based on capacity costs and suggests instead that FERC utilize a cost-based approach for basic maintenance while the resource awaits a guaranteed contract from a LSE. One stakeholder requested that the proposal be changed such that the payment prior to the FERC ruling would be the lesser of the soft-offer cap price and the offer submitted by the resource. One stakeholder requested that the CAISO clarify how the requirement to file a cost-based rate at FERC fits with the proposed application requirement to provide a binding offer price. One stakeholder pointed out that the unit's AFRR is the unit's total fixed cost in dollars, while the price specified in tariff section 43A.4.1.1 is given in $/KW-year, and asked the CAISO to clarify the two references.

CAISO Response – The CAISO continues to support cost-of-service pricing based on the calculation methodology used for RMR resources. The CAISO does not support the alternate form of compensation proposed in the stakeholder comment above. The CAISO has changed its proposal so that the monthly CPM payment prior to the FERC ruling will be the offer price submitted by the resource in its application. In this latest proposal the CAISO has clarified how the requirement to file a cost-based rate at FERC fits with the proposed application requirement to provide a binding offer price.

8. Decision to Accept

Several stakeholders support having the decision to accept a designation be voluntary, while several other stakeholders believe accepting the designation should be mandatory. Some stakeholders question how the CAISO could allow a resource to not accept a designation after the resource is found to be needed for reliability. One stakeholder states that if a resource opts not to accept the CPM payment, then the attestation is still binding and the resource should be required to shut-down. One stakeholder asked for confirmation that resources opting to decline a designation will remain subject to a potential RMR designation.

CAISO Response – In this draft final proposal the CAISO is now proposing that if offered a CPM ROR the resource must accept the designation. The CAISO believes that this is appropriate in circumstances where the resource has requested a CPM ROR designation, the CAISO has committed time and resources to conduct a reliability study, and the CAISO s determined that the resource is needed for reliability. The stakeholder comments suggesting that if a resource opts not to accept the CPM payment then the resource should be required to shut down is better addressed by requiring the resource to accept the designation.

9. Cost Allocation

Most stakeholders support the proposed cost allocation. One stakeholder requests that if the CAISO makes a designation due to a flexible system need, the costs should be allocated to all LSEs based on their system load ratios, not Transmission Access Charge ("TAC") area load ratios. Another stakeholder requests that if the CAISO designates a resource in the San Diego-IV area as CPM ROR for purposes of supporting the LA Basin, then the costs should also be shared with LSEs that serve load in that TAC area.

CAISO Response Costs associated with CPM ROR designations are allocated to LSEs in all of the TAC areas. Otherwise CPM ROR costs are allocated to LSEs in the TAC Area(s) where the need for the CPM ROR arose. Thus, all CPM ROR allocations are made on a case-by-case basis to a TAC Area or TAC Areas depending in the specific need for the ROR CPM designation.

10. RA Credits

Many stakeholders support the CAISO's proposal to provide RA credits for CPM ROR procurement. Several stakeholders have requested additional details on how RA credits will work and how the CAISO will coordinate with LRAs regarding use of the credits. One stakeholder requested that the CAISO provide the CPM credit to the LRA for allocation to the LSEs. Several stakeholders asked for clarification of how the timing of the designation would allow RA credits to be useful to LSEs given the RA program procurement timelines and encourage the CAISO to work with the LRAs to ensure that any allocation of RA credits will work with the schedules and processes of the LRA. One stakeholder requested that the proposal provide that if the CAISO designates for purposes of local and flexible operational needs, then LSEs should be credited for those capacity attributes.

CAISO Response – The CAISO continues to support its proposal for RA credits and has added in this draft final proposal additional detail on how it will coordinate with the CPUC, other LRAs and federal agencies with jurisdiction over the LSE on whose behalf the credit may be provided to determine whether the LSE should receive RA credits.

5. Changes from Revised Straw Proposal

The CAISO has made the following changes from the revised straw proposal to create the draft final proposal:

1. The CAISO is further clarifying its proposal such that it is now clear that any resource can apply for a CPM ROR designation, even a resource that is currently a RA, RMR or CPM resource. As described in the draft final proposal, any resource can apply for a designation, but a resource cannot be a CPM ROR capacity and RA, RMR or another kind of CPM capacity at the same time. There is now no gap in the proposal in which a resource cannot request a CPM ROR at all.

2. The CAISO is revising the draft tariff language regarding the deadlines for the ROR CPM request windows. The deadline for the first window cannot close before April 15 or after January 30.

3. The CAISO clarifies the tariff language to reflect that a resource can request both a Type 1 and a Type 2 ROR CPM designation in the same application.

4. The CAISO is extending the comment period for proposed Type 2 designations to no less than 14 days (from no less than seven days).

5. For Type 2 designations, LSEs have until 10 days before the beginning of the RA Compliance Year to procure the resource. Thereafter, the CAISO can designate it as CPM ROR.

6. The CAISO has further clarified the text in its illustrative examples of timelines to explain how the examples work and the caveats that go with the examples provided (since the examples illustrate general timelines, every date in the examples should not be considered firm, as the tariff language will not "hard wire" specific dates in the tariff, but instead will use language such as "cannot be before," "cannot be later than," no less than," and the CAISO will put the specific dates in the BPM for Reliability Requirements).
7. The CAISO has added additional details on the technical assessment that the CAISO must perform in order to issue a CPM ROR designation.
8. The CAISO is changing the reference to "generation" in sections 43A.2.6 (d)(3) and (e)(3) to "alternative solution".
9. For Type 2 CPM ROR designation requests the resource owner must attest that it reasonably believes that that its annual fixed costs for the year in which it seeks a CPM ROR designation will exceed $50.28/kw-year if it is located in a local capacity area and $36.00/kW-year if it is not. These prices are the 85th percentile of local capacity RA contracts and system RA capacity contracts as reflected on page 23 of the 2016 Resource Adequacy Report issued by the CPUC's Energy Division in June 2017. The CAISO commits to revisit these price levels each time it undertakes a stakeholder process und section 43A.4.1.1.2 to consider updating the CPM Soft Offer Cap.
10. The CAISO clarifies that the compensation a CPM ROR resource receives cannot be higher than the cost-based rate FERC approves for it, calculated in accordance with the RMR calculation methodology. Further, consistent with existing tariff policy, a resource cannot request from FERC, or be paid by the CAISO, a CPM ROR price that is higher than the offer price it submitted to the CAISO with its request for a CPM ROR. The CPM soft offer cap will play no role in connection with the CPM ROR designation process.
11. Clarified how capital additions are considered when using Schedule F of the pro forma RMR agreement to determine the price of a CPM ROR designation.
12. Clarified that prior to the determination by FERC of the resource-specific price for CPM capacity designated under CPM ROR and paid the CAISO will proceed as follows: For the period between the CAISO's designation and FERC's determination of the resource-specific, cost-based price, the CAISO will utilize the offer price the resource submitted with its request for a risk-of-retirement CPM designation for purposes of calculating monthly CPM payment for financial Settlement. This amount shall be subject to surcharge or refund based on the outcome of the FERC proceeding for months in which the CAISO paid the offer price to the resource. Once approved by FERC, the CAISO will apply the resource-specific price determined by FERC.
13. If the CAISO grants a resource's request for a CPM ROR designation, the resource must accept the designation unless it enters into an RA contract for the same period as the CPM ROR designation or a longer period.

14. Comments recognized that not all RA contracts may be January1 through December 1; rather, contracts may be partial year or may extend from one RA Compliance Year into a subsequent RA Compliance Year. So as not to inadvertently preclude any resource from requesting a CPM ROR and to address issues resulting from RA contracts with irregular terms, the CAISO has revised the CPM ROR term provisions to allow for balance-of-year designations commencing after the last month of the year in which the resource is RA.
15. Clarified how cost allocation works under the existing tariff for local and flexible resources and will work for CPM ROR going forward.
16. The CAISO is revising the existing crediting provisions to add that applicable LSEs will also receive credit toward their local capacity requirements if the designated resource is located in a local capacity area and credit toward any flexible RA capacity requirements for capacity that qualifies as flexible capacity.
17. The CAISO has added the text of existing tariff subsection 43A.9(f), which explains how RA crediting will be done for CPM ROR and the interaction and coordination between the CAISO and the CPUC, other Local Regulatory Authorities, or federal agencies with jurisdiction over the LSE.
18. The CAISO proposes to add language to tariff section 43A.5.1 stating that capacity designated as ROR CPM must meet the DA availability requirements specified in section 40.6.1, the RT availability requirements of section 40.6.2, and the DA and RT availability requirements specified in section 40.10.6.1 for the highest category of flexible capacity for which the resource's capacity qualifies as flexible capacity. Further, if the resource is located in a local capacity area it will be subject to all of the requirement applicable to Listed Local capacity.

6. Draft Final Proposal

The CAISO's draft final proposal is described below.

Eligibility for Designation

Capacity that is under an RA contract, RMR contract or another kind of CPM procurement may not be designated as ROR CPM and receive CPM payments at the same time. A resource that is "partial RA," i.e., has part of its overall capacity contracted for RA, is not eligible to receive a CPM ROR payment for that month. In other words, if a resource has even one-half of a MW contracted for RA for a month, the resource is considered an RA resource and is ineligible to receive a CPM ROR designation for that month.

ROR CPM Request and Designation Process

The CAISO proposes to change the current tariff to provide two application windows each year when resources can apply for a CPM ROR designation. The application windows initially will be open each year during the first-half of the months of April and November (April 1-15 and

November 1-15), with these specific initial dates established in the BPM for Reliability Requirements.

However, the tariff language will state that there will be two windows each year for resources to submit an application for a CPM ROR designation: one in the first half of the year and one in the second half. The tariff language will state that the deadline for first window cannot be before April 15 or later than June 30. The deadline for the second window will be after the deadline for LSEs to submit their annual RA plans to the CAISO.

The intent of this approach is to give the CAISO some flexibility in setting the exact dates for the request window, while still providing some level of certainty to market participants. This approach will allow some leeway to the CAISO, based on its actual experience, to change the exact timing of the request windows based on its actual experience by using the CAISO BPM Change Management stakeholder process rather than having to make a tariff amendment filing with FERC to modify the dates for the windows. FERC has previously recognized that implementation dates like these typically belong in a business practice manual not in the tariff.

In the first window in April, the CAISO will consider two types of CPM ROR designation requests. The first type, referred to as a Type 1 CPM ROR Designation, is a request by a non RA resource for a CPM ROR designation for the current RA compliance year. The second type, referred to as a Type 2 CPM ROR Designation, is a request by a RA resource or a non-RA resource for a CPM ROR designation for the calendar year following the current RA compliance year. A resource can seek both types of designations simultaneously, if applicable.

In the second window in November, the CAISO will consider CPM ROR designation requests for the upcoming RA Compliance Year,[4] referred to as a Type 3 CPM ROR Designation.

For each window, the CAISO will retain the following steps from the current tariff:

1. Perform a reliability study, and, if there are any resources eligible for CPM ROR, will post a report no less than 30 days after the closing of the window indicating the reliability need for the resource and proposing a CPM designation. The report will describe the reliability studies the CAISO performed as part of the reliability study, the assumptions underlying the CAISO's studies, the study results, the resource (or resources) that the CAISO has determined are needed to reliably operate the grid and may receive a CPM ROR designation, why that resource (or those resources) are needed such that the grid cannot be reliably operated without that specific resource (or resources) in service, and the time period for which a CPM ROR designation is needed.
2. After the posting of the report, for Type 1 and Type 3 designations, the CAISO will allow no less than seven days for stakeholders to review and submit comments on the report. For Type 2 designations, the CAISO proposes to extend the stakeholder comment period to no less than 14 days (from no less than seven days) because the actual designation will occur several months in the future.

[4] *T*he RA compliance year for which the recently submitted year-ahead annual RA Plans apply.

3. For Type 1 and Type 3 CPM ROR designations, LSEs will have at least 30 days to procure capacity from that resource before the CAISO could procure that resource under CPM ROR. For Type 2 CPM ROR designations LSEs will have until 10 days before the start of the new RA Compliance Year to procure capacity from that resource before the CAISO could procure that resource under CPM ROR. This is comparable to the deadline the CAISO allows for LSEs to cure any deficiencies in their annual RA plans and will allow the two processes to be more aligned.
4. If no LSE procures the specific resource that the CAISO identified as needed for reliability, the CAISO may then procure the resource as CPM ROR capacity. Existing tariff section 43A.6.2 describes the CPM designation report and market notice that the CAISO must issue within the earlier of 30 days of procuring a resource or 10 days after then end of the month. The designation report will contain the following information and the CAISO does not propose to make any changes to the current tariff language in section 43A.6.2 as this is existing tariff language that has been approved by FERC and in place for years.

> A description of the reason for the designation and an explanation of why it was necessary for the CAISO to utilize the CPM authority. The following information: the resource name; amount of CPM capacity designated in MW; explanation of why that amount of CPM capacity was designated; date CPM Capacity was designated; duration of the designation; and price of the resource.

The CAISO proposes two sets requirements for resource owners seeking a ROR CPM designation. First, there are general requirements applicable to all requests for a CPM ROR designation (for both the April and November windows). Second, there are additional requirements applicable to a resource owner in the April window that seeks a Type 2 CPM ROR designation (applying in the April window and requesting a designation for the upcoming RA Compliance Year). The CAISO will treat the information submitted by the resource owner as confidential. The provisions for each window are described below.

April Window

The applicant must submit an affidavit from an executive officer of the company that represents the resource attesting that the resource will be uneconomic to remain in service without a CPM ROR designation and the decision to retire is definite unless CPM or other CAISO procurement occurs, the resource is sold to a non-affiliated entity, or the resource receives an annual RA contract. The application must provide an offer price that will be binding such that the resource owner cannot request from FERC a price higher than its offer price submitted to the CAISO. The CAISO discusses the actual price to be paid to a resource receiving a CPM ROR *infra*. No other price will be considered valid.

To be eligible to receive a Type 1 CPM ROR Designation, the SC for the resource must have offered all Eligible Capacity from the resource into all CSPs for the current RA year (which means the year-ahead, month-ahead and intra-month CSPs).

To be eligible to receive a Type 2 CPM ROR Designation, the applicant must attest in the affidavit that it reasonably believes the resource's annual fixed costs meet or exceed the following prices, which are derived from the CPUC's 2016 RA Report: (1) if the resource is located in a Local Capacity Area as defined in the tariff $50.28 kW-year; or (2) if the resource is not located in a Local Capacity Area as defined in the tariff $36.00 kW-year.[5] 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. Lower cost units needed for reliability are more likely to be picked up in the RA process. Further, as discussed *infra*, the CAISO is also proposing a non-financial requirement to ensure that the Type 2 designation process does not unduly interfere with the RA process. Also, the attestation requirement should not be overly burdensome for resource owners because the CAISO is not requiring them to actually calculate their annual fixed revenue requirement in accordance with RMR Schedule F in advance of submitting their ROR CPM request. On the other hand, if a resource owner is attesting that a resource is at risk of retirement because its revenues are not covering its costs, the resource owner must at have some reasonable knowledge of what its fixed costs are. Prior to finalizing procurement of a resource under a Type 2 CPM ROR Designation the CAISO must find that the resource participated in all applicable RA competitive solicitations, requests for offers, or similar procurement mechanisms conducted by LSEs for such RA compliance year and was not offered an annual RA contract consistent with its offer. The CAISO notes that mere issuance of the report indicating the CAISO's intent to designate a resource as CPM ROR does not itself constitute designation of the resource. Actual designation of a resource as CPM ROR does not occur until after the comment and "cure" period has closed, the resource has not been procured by an LSE, and the CAISO formally designates the resource, which creates a market notice and reporting requirement. Further, the actual term of the CPM ROR designation occurs in accordance with Section 43A.3.7 and capacity cannot be CPM ROR capacity at the same time it is RA capacity. Thus, if the CAISO indicates its intent to issue a Type 2 designation to a resource in the report, the resource has a continuing obligation to participate in all applicable RA solicitations until the day the CAISO actually issues it a CPM ROR designation.

The CAISO technical study will determine whether the resource will be needed for reliability purposes, *e.g.,* for its locational or operational characteristics, by the end of the calendar year following the compliance year in which the resource would receive a CPM

[5] These two prices are the prices at which 85% of MW at or below (times 12 to determine an annual $/kW-year price) for local RA and system RA capacity, as shown ion page 23, Table 7 of the CPUC's 2016 RA Report. The CAISO proposes to use these two prices initially, and will update the prices in the future at the same time the other pricing aspects of CPM generally are updated pursuant to tariff section 43A.4.1.1.2. This approach will allow the price to be static and predictable for several years at a time, and be updated periodically to reflect any changed conditions.

ROR designation, and that no new generation is projected to be in operation during that period that could meet the identified reliability need.

For Type 2 CPM ROR Designations in the April window, the CAISO must find that the resource that is uniquely situated such that it is the only resource that can meet the identified reliability need. In other words, multiple resources cannot meet the same need. Because there are no alternative resources that can meet the reliability need, this requirement helps prevents Type 2 designations from unduly interfering with the RA process or creating any situation where the ISO might select a higher cost resource in the April window even though a cheaper resource might become available in the November window to meet the reliability need. In other words, the CAISO can only make a Type 2 designation if there is no other resource that can meet the reliability need identified in the April window. This requirement does not apply to Type 1 or Type 3 designations, both of which occur after annual RA procurement.

If a resource at ROR is needed for reliability, the CAISO would be able to communicate in its study report that the resource is eligible for a CPM designation, but any CPM designation is conditional, and the resource, if selected in a RA competitive solicitation, request for offers, or similar procurement mechanism conducted by an LSE must take that contract rather than the CPM designation if such contract is offered to the resource.

Examples are provided below of the timelines for the April application window if it were in place for 2017. The dates shown are for illustrative purposes only and should not be construed as exact dates that will be in effect each year (due to calendar days like weekends and holidays). The CAISO will not “hard wire” specific dates in the tariff, but instead will use language such as “cannot be before,” “cannot be later than,” no less than,” and will put the specific dates in the BPM for Reliability Requirements. This approach enables the CAISO, based on experience, to change dates in the future through the CAISO BPM Change Management stakeholder process and not require a tariff filing at FERC to amend the tariff for date changes.

There are two possible designation scenarios for the April application window. Example scenarios and their associated timelines are described below. The dates shown are for illustrative purposes only, and the example timelines shown below assume that the CAISO is able to complete the study report 30 days after the close of the application window (the tariff language provides that the CAISO “will issue a report no sooner than 30 days after the close of the applicable window”).

<u>Type 1 CPM ROR Designation: Designation Scenario where Resource is not RA in 2017 and requests a 2017 Balance-of-Year CPM ROR Designation</u> – Resource requests a CPM ROR designation for 2017, the CAISO does a study and finds the resource to be needed for reliability in 2018, in which case the CAISO could designate the resource for the remaining months of 2017 as a bridge during 2017 to get to 2018.

April 1-15: Window open for resource owner to apply

May 15: CAISO issues report explaining basis and need for CPM designation and intent to designate

May 22: Stakeholder comments on report due

June 22: Deadline for LSEs to procure in lieu of CAISO CPM ROR procurement

June 23: If not procured by LSEs, CAISO can designate unit as CPM ROR capacity

The CAISO will perform a technical assessment to determine if the resource will be needed for reliability purposes, typically for its locational or operational characteristics. To determine whether the resource is eligible for a CPM ROR designation, the CAISO will undertake a reliability study to determine whether the resource is needed by the end of calendar year 2018. The CAISO will assume that all resources not expected to retire are available.

The CAISO study will have up-to-date information on resources that are recently approved or under review and resource interconnections from the CAISO generator interconnection process and Resource Information Management System ("RIMS") database and the latest information on transmission projects through RIMS and CPUC quarterly Form 970. Any type of resource that is scheduled to be in service will be included in the study. The CAISO will consider any new addition to the grid, transmission or generation, as an alternative to the resource seeking CPM ROR. The study will include any and all reliability studies (see NERC, WECC, and CAISO standards). The study will use the latest information on resources that are expected to retire and are not expected to retire based on announced retirements and once-through cooling ("OTC") effective dates. The CAISO will use a diverse set of tools and follow a multi-step process whereby the CAISO will study a resource for its impact on the system and any local capacity area. The reliability, operational flexibility, given the best available information regarding grid conditions for year 2 and the assumed availability in year 2 of RA resources procured for year 1 (including other known generator retirements) and any new generation that will achieve commercial operation to meet year 2 needs.

1. This analysis consists of one or more of the following studies -- power flow, voltage stability, transient stability, reactive margin studies, and production simulation. The analysis will evaluate the adverse effects on the transmission system as well as operational flexibility requirements.
2. This analysis considers the characteristics of the individual resources in the fleet and will be able to highlight resources that are needed for locational and system reliability or have non-generic resource flexibility required to operate the integrated grid and have not been secured through the procurement process.

The CAISO intends to include all of the foregoing information in its Reliability Requirements business practice manual.

For Type 2 CPM ROR Designations in the April window, for the resource to be designated as CPM ROR capacity the CAISO must find that the resource that has applied for a CPM ROR is uniquely situated such that it is the only resource that can meet the identified reliability need. In other words, multiple resources cannot meet the same need. The "uniquely situated" condition applies only for Type 2 designations, and does not apply for all three types of designation.

Type 2 CPM ROR Designation: Resource, is RA or Non-RA in 2017, and requests a 2018 CPM ROR Designation – Resource requests a CPM ROR designation for 2018, the CAISO does a study and finds the resource to be needed in 2019, in which case the CAISO will indicate its intent to designate the resource for 2018 as a bridge during 2018 to get to 2019, and can establish an effective date for CPM ROR procurement of January 1, 2018 (after the CAISO checks to see if any LSE procures the resource in the year-ahead showings for 2018).

April 1-15: Window open for resource owner to apply

May 15: CAISO issues report explaining basis and need for CPM designation and intent to designate (CAISO will report a conditional designation)

May 29: Stakeholder comments on report due

December 22: Deadline for LSEs to procure in lieu of CAISO

December 26: CAISO can designate resource as CPM ROR capacity

January 1: Effective date of Type 2 CPM ROR designation

In response to comments that it is possible for an RA contract to carry over from one year into another, *e.g.*, a contract from January 1, 2017 through March 31, 2018, the CAISO has modified the proposal to allow a resource under such circumstances to receive a Type 2 designation for the balance of the year, i.e., from April 1-December 31. In all other instances, Type 2 designations commence on January 1

The CAISO will perform a technical assessment to determine if the resource will be needed for reliability purposes, typically for its locational or operational characteristics. To determine whether the resource is eligible for a CPM ROR designation, the CAISO will undertake a study to determine whether the resource is needed by the end of calendar year 2019. In the study process the CAISO will assume that all resources not expected to retire are available. The CAISO study will be performed as described in the Type 1 CPM ROR Designation: Designation Scenario section above.

One set of comments suggested that the CAISO should evaluate Type 2 and Type 3 designations together to ensure that resources with the best characteristics and lowest costs are granted designations. The concern was that the CAISO might grant a resource a Type 2 designation in April but a better, lower cost resource might appear in the November window that the CAISO would be unable to designate because it already selected a resource in the April window. This scenario cannot happen under the CAISO's proposal because the CAISO cannot issue a Type 2 designation where if there is more than one resource that can meet the identified reliability need.

November Window

The tariff language will require the applicant to submit an affidavit from an executive officer of the company that represents the resource to attest that its resource will be uneconomic to remain in service without a designation and the decision to retire is definite unless CPM or other CAISO procurement occurs, the resource is sold to a non-affiliated entity, or the resource receives an annual RA contract. The tariff language also will continue to state that the application must provide an offer price that will be binding. The resource owner must file at FERC for a cost of service price that is no higher than the price it submitted with its request for a CPM ROR. No other price will be valid.

The CAISO provides an example of the timelines for the November application window if it were in place for 2017. The dates shown are for illustrative purposes only and should not be construed as exact dates that will be in effect each year (due to calendar days like weekends and holidays). As discussed above, the CAISO will not "hard wire" specific dates in the tariff, but instead will use language such as "cannot be before," "cannot be later than," no less than," and will put the specific dates in the BPM for Reliability Requirements.

The dates shown are for illustrative purposes only, and the example timelines shown below assume that the CAISO is able to complete the study report 30 days after the close of the application window (the tariff language provides that the CAISO "will issue a report no sooner than 30 days after the close of the applicable window".

- Nov 1-15: Window open for resource to apply
- Dec 15: CAISO issues report
- Dec 22: Stakeholder comments on report due
- Jan 22: Deadline for LSEs to procure in lieu of ISO\
- Jan 23: CAISO may designate resource via CPM ROR

Consistent with the discussion above, if a resource seeking a Type 3 ROR CPM designation had an RA contract for the first three months of 2018, any actual designation would not commence until April 1.

The CAISO performs technical assessments to determine if the resource will be needed for reliability purposes, typically for its locational or operational characteristics. The study done for will be done after the CAISO knows through the year-ahead RA showings which resources are RA for the upcoming RA year. A resource in this window will be studied unless it is RA for the entire year. Under the CPM ROR tariff provisions, the CAISO will undertake a study to determine if the resource is needed for reliability by the end of calendar year 2019. If the CAISO finds the resource to be needed by the end of calendar year 2019, then it may issue a CPM ROR designation to the resource for 2018. In the study process the CAISO will assume that all resources not expected to retire will be considered available. The CAISO study will be performed as described in the Type 1 CPM ROR Designation: Designation Scenario section above.

The CAISO will revise the tariff to refer to selection criteria specified in sections 43A.4.2.2 and 43A.4.2.3 in the event there are multiple resources seeking a CPM ROR designation at the same time, but the “need” is such that the CAISO cannot designate all of the resources. Section 43A.4.2.3 will serve as a tiebreaker. The language from sections 43A.4.2.2 and 43A.4.2.3 is provided below. The offer price that will be used with regard to Section 43A.4.2.2 will be the offer price that is provided by the resource in its CPM ROR application to the CAISO.

43A.4.2.2 Minimizing the Overall Cost of Meeting the Reliability Need

Once the CAISO has identified the pool of resources that can meet the designation criteria, the CAISO shall then designate Eligible Capacity from that pool of resources in order to minimize the overall cost of meeting the designation criteria. Aside from considering the respective offer prices from the Eligible Capacity, as part of this cost minimization the CAISO also may consider: the quantity of a resource’s available Eligible Capacity, based on a resource’s PMin, relative to the remaining amount of capacity needed; and the quantity of a resource’s available Eligible Capacity, based on outages and replacement or substitute daily RA Capacity.

For a potential Exceptional Dispatch CPM, the CAISO also shall consider the overall costs to the CAISO of issuing the Exceptional Dispatch to RA Capacity rather than to Eligible Capacity. If the CAISO determines it would minimize overall costs to issue the Exceptional Dispatch to RA Capacity, then the CAISO shall issue the Exceptional Dispatch to RA Capacity and not designate Eligible Capacity as CPM Capacity to meet the designation criteria.

If capacity would receive a CPM designation based on the cost minimization criteria but the resource from which the capacity would be provided faces use limitations such that the capacity, in the CAISO’s reasonable discretion, poses the risk of being unavailable to fully meet the reliability need creating the CPM event, then the CAISO may, at its reasonable discretion and giving due regard for meeting cost minimization considerations, not grant that capacity a CPM designation and instead grant the designation to the next-best capacity at meeting the CAISO cost minimization process defined in this Section 43A.4.2.2. In exercising this discretion, the CAISO shall not unduly discriminate against resources with use limitations.

Additionally, if capacity would receive a CPM designation based on the cost minimization criteria but the resource from which the capacity would be provided is already going to be RA Capacity at some point during the CPM designation period and, in the CAISO’s reasonable discretion, poses the risk of the capacity being unavailable fully to meet the reliability need creating the need for a CPM designation, then the CAISO may, at its reasonable discretion and giving due *regard for meeting cost minimization considerations, not grant that capacity a CPM designation and instead grant the designation to the next-best capacity at meeting the CAISO cost minimization process defined in this Section 43A.4.2.2.*

43A.4.2.3 Additional Permissible Considerations

In either the Annual CSP or Monthly CSP, if two or more offers would meet the cost minimization criteria identified in Section 43A.4.2.2 equally, then the CAISO shall grant the designation in its discretion based on criteria A and B, below. In the Intra-monthly CSP, if two or more offers are within 10% of each other in terms of total cost to designate the capacity, then the CAISO shall grant the designation in its discretion based on criteria A and B, below.

Criterion A – Relative effectiveness of the resources in meeting local and/or zonal constraints or other ISO system needs.

Criterion B – Relative operating characteristics of the resources, including dispatchability, ramp rate, and load-following capability.

Term and Compensation

The CAISO will modify the tariff to state that Type 1 CPM ROR Designations will have a term for the balance of the RA Compliance Year in which they occur.[6] Type 2 and Type 3 CPM ROR Designations will have a term of 12 months, or balance of the RA Compliance Year if the resource is already RA for a part of the RA Compliance Year (in other words, not all Type 2 and Type 3 designations have to be for all 12 months of the year). Capacity cannot be both CPM Capacity and RA Capacity at the same time. For example, if a resource seeks a Type 1 designation and it is RA capacity through August 31, it would be eligible for a Type 1 designation for the period September 1-December 31.The term of any designation may not extend into a subsequent RA Compliance Year.

Comments recognized that not all RA contracts may be January1 through December 1; rather, contracts may be partial year or may extend from one RA Compliance Year into a subsequent RA Compliance Year.[7] So as not to inadvertently preclude any resource from requesting an ROR CPM and to address issues resulting from RA contracts with irregular terms, the CAISO has revised the ROR CPM term provisions to allow for balance-of-year designations commencing after the last month of the year in which the resource is RA. Consistent with the

[6] For example, if following the evaluation of applications in the April window, the ISO designates a non-RA resource as ROR CPM on June 30, the designation would be effective for the six remaining months of the year.

[7] SDG&E believes setting a minimum term of 12 months may not allow resources that have contracts ending intra-year 2017 or 2018 to apply or be designated as CPM ROR under the 2017 windows. It indicated that in such a case, the resource could be required to wait until April of 2018 prior to applying for risk of retirement.

existing tariff, CPM resources will not receive CPM payments for capacity that is shown as RA, RMR or other kind of CPM procurement in a given month.

To be paid for an awarded CPM ROR offered by the CAISO, the resource owner must make a filing at FERC to justify its costs, and FERC will decide the level of compensation. The pricing formula costs are to be determined using the Annual Fixed Revenue Requirement for a RMR Unit as set forth in Schedule F to the pro forma RMR agreement in Appendix G of the CAISO tariff.[8] This is the existing methodology for establishing a CPM price above the soft offer cap. The payment for each month of designation will be based on the existing CPM calculation of 1/12 per month of the annual compensation amount.

Under Section 4 of Schedule F to the pro forma RMR agreement, net investment is determined as of the end-of-year balances in the accounts specified for the relevant cost year. Because some CPM ROR designation may occur mid-year, net investment should be based on the resource's plant in service at the start of the CPM designation.

Prior to FERC's determination of the resource's CPM ROR price, the CAISO will pay the resource based on its offer price submitted in the CPM ROR application. The price will be subject to refund or surcharge for periods in which the offer price was applied once FERC determines the applicable cost-based price. After FERC determines the cost-based price, the CAISO will a use the FERC-determined price.

The CPM tariff's more general soft offer cap price will not be available to resources seeking CPM ROR designations. The intent is for CPM ROR payments to be cost-based. ROR CPM is essentially a one-year or balance-of-year "bridge" to an RA compliance year when the resource will be needed.

If the CAISO grants a resource's ROR CPM designation, the resource must accept the designation unless it enters into an RA contract for the same period as the ROR CPM designation or a longer period. This ensures that a needed resource will remain available to the CAISO.

<u>Cost Allocation</u>

Cost allocation for CPM ROR procurement will be treated as is already provided for in the current CAISO tariff, in section 43A.8.7. The CAISO is not proposing any changes to section 43.A.8.7 of the tariff.

> 43A.8.7 Allocation of CPM Costs For Resources at Risk of Retirement
>
> If the CAISO makes any CPM designations under Section 43A.2.6 for resources at risk of retirement needed for reliability, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the CPM designation arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in

[8] A link to the CAISO's tariff is: http://www.caiso.com/rules/Pages/Regulatory/Default.aspx

the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

For example, if the CAISO designated a resource as CPM ROR because it needed flexible capacity to meet a system reliability need, the CAISO would allocate the costs to all LSEs on the system.

RA Credits

The CAISO proposes to continue the current tariff approach where if a CPM designation is for greater that one month the CAISO will provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards meeting RA requirements, and will coordinate with the CPUC, other LRA, or federal agency with jurisdiction over the LSE regarding the use by LSEs of those credits.. The provision of RA credits for CPM ROR procurement is already included in the current CAISO tariff, in section 43A.9(d). As requested by stakeholders, the CAISO is proposing some revisions to section 43A.9(d) regarding local and flexible capacity. The proposed text for revised section 43A.9(d) is shown below. Further, in this draft final proposal the CAISO has added the existing text of tariff subsection 43A.9(f), which further explains how RA crediting will be done for CPM ROR and the interaction and coordination between the CAISO and with the CPUC, other LRA, or federal agency with jurisdiction over the LSE.

43A.9 Crediting Of CPM Capacity

The CAISO shall credit CPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entities as follows:

(d) To the extent the cost of CPM designations under Section 43A.2.6 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.7, and the designation is for greater that one month under Section 43A.3.7, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements, credit towards the LSE's Local Capacity Resource Requirements if the resource is located in a Local Capacity Area, and credit towards the LSE's Flexible RA Capacity requirement for capacity that qualifies as Flexible Capacity under Section 40.10.3, all as determined under Section 40, in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.6. Credit will be rescinded for any month during the CPM designation period in which the resource is under contract with an LSE to provide RA Capacity.

(f) For each Scheduling Coordinator that is provided credit pursuant to this Section, the CAISO shall provide information, including the quantity of capacity procured in MW, necessary to allow the CPUC, other Local Regulatory Authority, or federal agency with jurisdiction over the LSE on whose behalf the credit was provided to determine whether the LSE should receive credit toward its resource adequacy requirements adopted by such agencies or authorities.

Must-Offer Obligation

In response to stakeholder comments, the CAISO proposes to clarify the must-offer obligations for a designated CPM ROR resource. The CAISO proposes to add language to tariff section 43A.5.1 stating that capacity designated as CPM ROR must meet the Day-Ahead availability requirements specified in section 40.6.1, the RT availability requirements of section 40.6.2, and the Day-Ahead and Real-Time availability requirements specified in section 40.10.6.1 for the highest category of flexible capacity for which the resource's capacity qualifies as flexible capacity.

7. Next Steps

The CAISO will discuss this draft final proposal with stakeholders during a conference call on September 20 2017. Stakeholders are encouraged to submit written comments by October 4, 2017 to initiativecomments@caiso.com.

Appendix 1

Draft Tariff Language

This appendix provides draft tariff language for the main CPM ROR tariff sections that are affected by this revised straw proposal.

43A.2.6 Capacity at Risk of Retirement Needed For Reliability

The CAISO will have the authority to designate CPM Capacity to keep a resource in operation that is at risk of retirement during the current RA Compliance Year or the calendar year following the current RA Compliance Year and is needed to maintain reliability as discussed below.

(a) Any resource owner can apply for a risk of retirement CPM designation under this Section consistent with the requirements below, but Capacity cannot be both CPM Capacity and Resource Adequacy Capacity at the same time.

(b) The CAISO will provide two windows annually for resource owners to request a risk of retirement CPM designation. To be considered for a CPM risk of retirement designation in a given window, a resource owner must submit a request by the deadline specified in the BPM for Reliability Requirements for that window. The deadline for the first window will be no earlier than April 15 and no later than June 30 of each year, and the deadline for the second window will be after the deadline for LSEs to submit their annual Resource Adequacy Plans to the CAISO.

(1) In the first window, the CAISO will consider two types of risk of retirement CPM designation requests: first, a request by a resource for a CPM risk of retirement designation during the current RA Compliance Year (referred to as a Type 1 Risk of Retirement CPM Designation); and second, a request by a resource for a risk of retirement CPM designation during the calendar year following the current RA Compliance Year (referred to as a Type 2 Risk of Retirement CPM Designation). A resource owner can seek both a Type 1 and a Type 2 designation in the same request, if applicable.

(2) In the second window, the CAISO will consider requests for a CPM risk-of-retirement designation for the upcoming RA Compliance Year, *i.e.,* the RA Compliance Year for

which the recently submitted annual Resource Adequacy Plans apply (referred to as a Type 3 Risk of Retirement CPM Designation).

(c) Prior to issuing a risk of retirement CPM designation, the CAISO will prepare a report that explains the basis and need for the risk of retirement CPM designation and its intent to make such designation. The report will not identify the need for specific resources that the CAISO is not proposing to grant a risk of retirement CPM designation and will not specify the offer price of any resource for which the CAISO proposes to grant a risk of retirement CPM designation. The CAISO will post the report on the CAISO's Website and allow an opportunity of no less than seven (7) days for stakeholders to review and submit comments on proposed Type 1 and Type 3 designations in a report and no less than 14 days for stakeholders to review and submit comments on a proposed Type 2 designation in a report. . The CAISO will issue a report no sooner than 30 days after the close of the applicable window. For Type 1 and Type 3 Risk of Retirement CPM Designations, the CAISO will allow an LSE no less than thirty (30) days from the applicable comment date to procure Capacity from the resource. For Type 2 Risk of Retirement CPM Designations, the CAISO will allow an LSE until ten (10) days before the beginning of the Resource Adequacy Compliance Year to procure Capacity from the resource. If an LSE does not, within the specified period, procure sufficient RA Capacity to keep the resource in operation during the term of the risk of retirement CPM designation, the CAISO may issue the risk of retirement CPM designation provided that all applicable requirements set forth herein have been satisfied and all other available procurement measures have failed to procure the resources needed for reliable operation. The CAISO will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs.

(d) The CAISO may issue a Type 1 Risk of Retirement CPM Designation if all of the following requirements are met:

(1) The resource is not contracted as RA Capacity or listed as RA Capacity in any LSE's annual Resource Adequacy Plan during the current RA Compliance Year, and CAISO technical assessments project that the resource will be needed for reliability purposes,

either for its locational or operational characteristics, by the end of the calendar year following the current RA Compliance Year;

(2) The CAISO did not identify any deficiency, individual or collective, in an LSE's annual Resource Adequacy Plan for the current RA Compliance Year that resulted in a CPM designation for the resource in the current RA Compliance Year;

(3) The CAISO does not project any new alternative solution to be in operation by the start of the next RA Compliance Year that will meet the identified reliability need;

(4) The Scheduling Coordinator for the resource has offered all Eligible Capacity from the resource into all CSPs for the current RA year; and

(5) The resource owner submitted the following information to the CAISO and DMM in its request for a risk of retirement CPM designation: an offer price consistent with Section 43A.2.6(g) and an affidavit of an executive officer of the company who has the legal authority to bind such entity, with the supporting financial information and documentation discussed in the BPM for Reliability Requirements, that attests that it will be uneconomic for the resource to remain in service in the current RA Compliance Year, and that the decision to retire is definite unless CPM or some other type of CAISO procurement of the resource occurs, the resource is sold to a non-affiliated entity, or the resource enters into an RA contract for the remainder of the current RA Compliance Year. Failure to provide this information will result in the CAISO rejecting the request and not issuing the report contemplated in Section 43A.2.6(c). If a resource owner fails to make these showings in its request for a Type 1 Risk of Retirement CPM designation, the CAISO will not study the need for the resource in the window.

(e) The CAISO may issue a Type 2 or Type 3 Risk of Retirement CPM Designation if all of the requirements specified below are met. In addition, Type 2 Risk of Retirement CPM designations require satisfaction of the requirements in Section 43A.2.6 (f).

(1) the resource is not contracted as RA Capacity or listed as RA Capacity in any LSE's annual Resource Adequacy Plan for the RA Compliance Year in which the resource will be CPM, and CAISO technical assessments project that the resource will be needed for

reliability purposes, either for its locational or operational characteristics, by the end of the calendar year following the RA Compliance Year in which the resource would be CPM;

(2) The resource owner submitted the following information to the CAISO and DMM in its request for a risk of retirement CPM designation: an offer price consistent with Section 43A.2.6(g) and an affidavit of an executive officer of the company who has the legal authority to bind such entity, with the supporting financial information and documentation discussed in the BPM for Reliability Requirements, that attests that it will be uneconomic for the resource to remain in service in the next RA Compliance Year, and that the decision to retire is definite unless an annual CPM or some other type of annual CAISO procurement occurs, the resource is sold to a non-affiliated entity, or the resource enters into an annual RA contract for the next RA Compliance Year. Failure to provide this information will result in the CAISO rejecting the request and not issuing the report contemplated in Section 43A.2.6(c). If a resource owner fails to make these showings in its request for a Type 2 or 3 Risk of Retirement CPM designation, the CAISO will not study the need for the resource in the window.

(3) The CAISO does not project any new alternative solution to be in operation by the start of the RA Compliance Year following the RA Compliance Year in which the resource will be CPM that will meet the identified reliability need; and

(4) The CAISO did not identify any deficiency, individual or collective, in an LSE's annual Resource Adequacy Plan for the upcoming RA Compliance Year that resulted in an annual CPM designation for the resource.

(f) In addition to the requirements of Section 43A.2.6 the requirements below must be satisfied for the CAISO to issue a Type 2 Risk of Retirement CPM designation to a resource:

1) The affidavit required by Section 43A.2.6 (e) (2) contains an attestation that the affiant reasonably believes the annual fixed costs of the resource for the next RA Compliance Year will equal or exceed $50.28/kW-year if the resource is located in a Local Capacity Area or $36.00/kW-year if the resource is not located in a Local Capacity Area. If a resource owner fails to make this showing in its request for a Type 2 Risk of Retirement CPM designation, the CAISO

will not study the need for the resource in the window. When the CAISO undertakes a stakeholder process under Section 43A.4.1.1.2 to consider updating the CAPM Soft Offer Cap, the CAISO will also consider whether to update the cost levels in this Section.

(2) The resource participated in all applicable resource adequacy competitive solicitations, requests for offers, or similar procurement mechanisms conducted by load serving entities for such RA Compliance Year and was not offered an annual RA contract consistent with its offer. If an LSE accepts the resource's offer in any such solicitation, the resource will not receive a risk of retirement CPM designation; and

(3) The resource is uniquely situated in that it is the only resource that can meet the identified reliability need.

(g) The price paid to a resource receiving a CPM risk of retirement designation will be a resource-specific ,cost-based price, based on net plant investment at the time the CPM designation commences, calculated based on the formula set forth in Section 43A.4.1.1.1, and as determined by FERC as prudent, just, and reasonable. The resource owner must follow the process set forth in Section 43A.4.1.1.1 and obtain from FERC a resource-specific, cost-based price. A resource owner may not propose to FERC --and will not be compensated for any risk-of-retirement CPM designation based upon -- a price higher than the offer price it submitted to the CAISO with its request for a risk of retirement CPM designation. Prior to the determination by FERC of the resource-specific price for CPM capacity designated under this Section, and paid pursuant to Sections 43A.4.1.1.1 and 43A.7.1 the CAISO will proceed as follows: For the period between the CAISO's designation and FERC's determination of the resource-specific, cost-based price, the CAISO will utilize the offer price the resource submitted with its request for a risk-of-retirement CPM designation for purposes of calculating monthly CPM payment for financial Settlement. This amount shall be subject to surcharge or refund based on the outcome of the FERC proceeding for months in which the CAISO paid the offer price to the resource. Once approved by FERC, the CAISO will apply the resource-specific price determined by FERC.

(h) If there are multiple resources that can meet the reliability need identified by the CAISO, but the CAISO does not need all of the resources, the CAISO will determine which resource receives a risk of retirement CPM designation by using the offer price the resource owner submitted with its request for a risk of retirement CM designation and applying the criteria in Section 43A.4.2.2 and the criteria in Section 43A.4.2.3 applicable to the annual and monthly CSPs.

(i) If the CAISO grants a resource's request for a risk-of-retirement CPM designation, the resource must accept the designation unless it enters into an RA contract for the same period as the risk-of-retirement CPM designation or a longer period.

43A.3.7 Term-Capacity at Risk of Retirement Needed for Reliability

Type 1 Risk of Retirement CPM Designations will have a term for the balance of the RA Compliance Year in which they occur commencing after the last month of the RA Compliance Year for which the resource is a Resource Adequacy Resource. Type 2 and Type 3 Risk of Retirement CPM Designations will have a term of 12 months unless the resource is a Resource Adequacy Resource for part of the year, in which case the term will be for the balance of the RA Compliance Year in which they occur commencing after the last month in the RA Compliance Year for which the resource is a Resource Adequacy Resource. The term of any designation may not extend into a subsequent RA Compliance Year. The CAISO will rescind the CPM designation for any month during which the resource is under contract with an LSE to provide RA Capacity.

43A.9 Crediting of CPM Capacity CONTAINS EDITS TO EXISTING TARIFF LANGAUGE]

The CAISO shall credit CPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entitles as follows:

(d) To the extent the cost of CPM designations under Section 43A.2.6 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.7, and the designation is for greater that one month under Section 43A.3.7, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements, credit towards the LSE's Local Capacity Resource Requirements if the resource is located in a Local Capacity Area, and credit towards the LSE's Flexible RA Capacity requirement for capacity that qualifies as Flexible Capacity under Section 40.10.3, all as determined under Section 40, in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.6. Credit will be rescinded for any month during the CPM designation period in which the resource is under contract with an LSE to provide RA Capacity.

(f) **[THIS IS ENTIRELY EXISTING TARIFF LANGAUGE]** For each Scheduling Coordinator that is provided credit pursuant to this Section, the CAISO shall provide information, including the quantity of capacity procured in MW, necessary to allow the CPUC, other Local Regulatory Authority, or federal agency with jurisdiction over the LSE on whose behalf the credit was provided to determine whether the LSE should receive credit towards its resource adequacy requirements adopted by such agencies or authorities.

TARIFF LANGUAGE TO BE ADDED SOMEWHERE IN SECTION 43A.5.1

CPM Capacity designated under Section 43A.2.6 will meet the Day-Ahead availability requirements specified in Section 40.6.1, the Real-Time Availability requirements of Section 40.6.2, and the Day-Ahead and Real-Time Availability requirements specified under Section 40.10.6.1 for the highest Flexible Capacity Category for which the Capacity qualifies under Section 40.10.3.

Appendix 2

Stakeholder Written Comments on August 8, 2017 Revised Straw Proposal

This section of the draft final proposal provides the full written comments submitted by stakeholders. The CAISO has summarized these comments and provided responses in section 4.

List of Acronyms:

CPUC	Energy Division Staff, California Public Utilities Commission
NRG	NRG Energy, Inc.
ORA	Office of Ratepayer Advocates, California Public Utilities Commission
PG&E	Pacific Gas & Electric
SCE	Southern California Edison
SDG&E	San Diego Gas & Electric Company
Six Cities	Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California

1. Who Can Apply

CPUC - In its May 2017 Issue Paper, CAISO states: "The current CPM risk-of-retirement tariff allows only resources that are not under an RA contract to request CPM risk-of-retirement procurement. This requirement limits the scope of resources that can apply. For example, in the case of the two Calpine plants that were authorized in March 2017 to receive RMR designations, both plants are under an RA contract until the end of 2017." In its August 8, 2017 Revised Straw Proposal, the CAISO states that there "has been a general belief that resources cannot apply for a CPM ROR designation while they are RA, but a close reading of the tariff shows there is no such express requirement." ED Staff has no objection with the CAISOs clarifying that any resource, including a resource that is currently RA, can apply for a CPM ROR designation.

NRG - One minor comment: On page 10 of the Revised Straw Proposal ("RSP"), the CAISO indicates that "The CAISO will clarify the tariff to confirm that any resource, including a resource that is currently RA, can apply for a CPM ROR designation." The CAISO also states, however, that a non-RA resource may not apply in the proposed April window if the resource's costs are not greater than the CPM soft offer cap price of $75.68/kW-year. It may be true that any resource can apply in certain windows, but not in all windows. The CAISO should clarify that the provision that "any resource may apply" has some conditions with regards to timing.

ORA - ORA continues to support the ability for all resources to apply for CPM ROR status.

PG&E - No comment.

SCE - SCE has no comments on this section.

SDG&E - SDG&E agrees that all resources should have the option to apply for Risk of Retirement protection. While the section in the proposal state that any resource may apply, later sections prohibit resources under RA contract from applying. SDG&E recommends the CAISO to clarify this limitation within the "who can apply" section of the proposal. Specifically, resources under RA contract for January 2019 cannot apply for CPM ROR in the November 2018 window.

Since this is the case, SDG&E is unsure if there is a gap in which a resource cannot request any CPM ROR at all. For example, a resource is under contract from January 2017 to March 2018. This resource would not be eligible to apply for Type 1 CPM ROR in April 2017 because it is RA for all of 2017. The resource would also not be eligible to apply for Type 3 CPM ROR in November 2017 because it is RA for Q1 2018. Per the proposal, "the resource must not be RA for 2018 and must be needed before the end of the calendar year 2019".1 SDG&E is uncertain if the resource could apply for Type 2 CPM ROR in April 2017 and would appreciate the CAISO clarify this question. SDG&E would also recommend removing language regarding designation qualifications from this section as it creates confusion as it mixes application as well as designation.

Six Cities - The Six Cities do not oppose the proposal to allow any resource to apply for a Risk-of-Retirement CPM designation, regardless of whether the resource is subject to a Resource Adequacy contract at the time of its application. The Six Cities specifically support the CAISO's confirmation that a resource may not receive payments for a Risk-of-Retirement CPM designation at the same time that it is either (i) a party to and receiving payments under a Resource Adequacy contract or a Reliability-Must-Run agreement; or (ii) designated as a CPM resource for another category of CPM procurement. (*See* Revised Straw Proposal at 8.)

2. Timing of Requests for Designation - Windows

CPUC - In its revised Straw Proposal, CAISO adds an additional application window, allowing generators to apply for a CPM ROR designation. The proposal states that this window will occur in April, allowing "Type 1" and "Type 2" resources to apply. ED Staff does not support the addition of the April window. Adding an April window to the CPM ROR process will front run the annual resource adequacy procurement process.

Additionally, the CAISO added two conditions to the April window. These conditions do not mitigate ED Staff concerns regarding front running RA procurement.

One of the additional conditions is that the generator must demonstrate that their costs are above the CPM soft offer cap. The current language of the Straw proposal does not indicate whether capital additions can be included in the demonstration generators are being required to submit. 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".[9]

In response to parties' comments regarding the inclusion of major maintenance costs, CAISO states it,

> "has removed the major maintenance costs example from the four examples of what could be submitted for the April application window as documentation to prove that a resource is not likely to be procured as RA. Maintenance costs can be included in the price pricing formula for how costs are to be determined using the Annual Fixed Revenue Requirement for a RMR Unit as set forth in Schedule F to the pro forma RMR agreement in Appendix G of the CAISO tariff."

Reading Schedule F to the pro forma RMR agreement, it was ED Staff's understanding, that capital additions would not be included in the cost calculation. Major maintenance would appear to fall into the category of capital additions. However, after further discussion with CAISO staff, ED Staff now understands that capital additions can be included in the costs, as long as they are completed in the

[9] August 8, 2017 Revised Straw Proposal pp. 21

same year that the generator has applied for a CPM designation. For example, if a generator applies for a “Type 2” CPM ROR in April 2017, and includes capital additions in its cost of service, those capital additions would have to be completed no later than December 31, 2017.

ED Staff does not support the inclusion of major maintenance capital additions in the cost calculation. The CAISO needs to make the inclusion of capital additions clear in its straw proposal and stakeholders need an opportunity to comment on this aspect of the proposal, if this is the actual interpretation of the inclusion of capital additions.

The second condition is that the CAISO must find that the resource is the only resource that can fill the identified need. It is unclear to ED Staff what reliability criteria and assumptions that CAISO will use in determining its need. For example, will the study use a 1 in 10 load forecast for system need, what criteria will be used for flexible need, what assumptions will be made regarding imports, demand response and outage management. Staff requests more details on the assumptions that will flow into the CAISO’s determination of need. This is further discussed in Section 11 below.

NRG - No comment.

ORA - At the request of resource owners, the CAISO seeks to alter the current CPM ROR process by allowing the CAISO to conduct ROR analysis and designation before the period for executing RA contracts closes at the end of October. The proposed period would provide seven additional months for resources to plan for retirement, thus minimizing closing costs. In theory, this new earlier analysis and designation could result in resources successfully filing for CPM ROR status and perhaps prevent a plant from retiring prior to the subsequent year when it would be needed. During the stakeholder calls for this initiative, stakeholders representing generation resources noted that the failure of any resource to previously file for CPM ROR status was largely due to the filing requirement being set for late in the year which does not allow for adequate retirement planning. Unfortunately, no evidence exists to support the concept that additional retirement planning time would do more than simply reduce closing costs.

It might be reasonable to grant resources more time to plan their retirements and minimize closing costs, if the process did not pose the risk of negative ratepayer impacts. However, the proposed April window would allow resources to obtain a CAISO determination that they are needed in advance of the deadline for executing a bilateral contract with a load serving entity (LSE). The operators of such resources therefore would be unlikely to execute an RA contract at a price lower than the CPM price, which is typically well above the price LSEs pay for RA capacity. Given the risk that ratepayers would pay more for capacity designated as needed during the proposed April window, the CPM ROR analysis and designation process should not be expanded to include this additional window unless more evidence indicates that a lower reliability risk from early retirements is a reasonably anticipated outcome.

The proposed April window also would include a Type 1 category designation that would pay a resource for the remaining months of the current year if it is determined that a need for the resource exists in the following year. It is difficult to imagine that a resource notified in late June of a guaranteed profitable contract just six months later would choose to retire. Furthermore, ratepayers should not pay for capacity beginning in late June for resources that would not help LSEs in meeting RA obligations, which in most cases would already have been placed under contract for the current year.

PG&E - PG&E understands the CAISO position that the CPM ROR payment be based on cost of service. However, if a resource is granted a conditional CPM in April, it does not have an incentive to bid competitively when it knows it can receive cost-of-service recovery. A resource that can demonstrate that their costs are above the CPM soft-offer cap will not have the incentive to seek cost saving measures to bid more competitively with the designation guarantee.

SCE - SCE has no comments on this section.

SDG&E - SDG&E believes the 3 types and 2 windows of CPM ROR create more complexity. SDG&E recommends the CAISO to join Type 1 and 2 options into a single application where the CAISO would study the need for a resource for both 2018 and 2019. It would be an awkward situation if the resource is needed in 2019 but the resource only submitted for a Type 1 CPM ROR and the CAISO did not have a need for the resource in 2018 and therefore could not CPM the resource.

Six Cities - The Six Cities do not oppose the timeline for designation requests as outlined in the Revised Straw Proposal.

3. Process for Study and Procurement

CPUC - With regards to the study process and procurement, CAISO states it will retain the three steps listed in the current tariff. ED Staff requests that the current tariff be revised to require more granular details in the CPM reports. Transparency is very important to stakeholders, and currently the CPM designation reports are not very detailed and do not provide sufficient information to fully understand why a resource was designated. The reports should include the applicable reliability criteria, load and resource assumptions as well as contingencies. It should also include the WECC reliability criteria requirement (if applicable) that the CAISO is complying with. Reports should also include the total cost of the designation and whether those costs include any major capital additions (and over how many years the capital addition costs are being amortized).

In its August 8, 2017 Revised Straw proposal, the draft tariff language of 43A.2.6 b states that

> “[t]he deadline for the first window will be no later than June 30 of each year...” The draft tariff also states that the CAISO will issue a report no sooner than 30 days from the applicable window and allow stakeholder no less than 7 days to submit comments on the report. Finally, the draft tariff states, “[f]or type 2 CPM Risk of Retirement Designation, the CAISO will allow no less than six months from the comment date for an LSE to procure Capacity from the resources.”

The timing defined in the tariff does not seem to make sense. If the window closes on June 30th, CAISO posts the report (no sooner than) 30 days later, and parties have 7 days to comment, that puts us at August 8th. LSEs then have 6 months to procure the capacity, which puts us at February 8th. Wouldn’t the timeline need to end prior to the end of the year in order for the resource to be designated for that year? Also, the timing provided in the draft tariff would not allow for any RA credits to transfer to LSEs prior to an LSE making its year-ahead procurement. This would lead to over-procurement in the year ahead time frame.

NRG - No comment.

ORA - The CAISO proposes to perform a reliability study to determine whether a resource will be needed for reliability and will post a report no less than 30 days after the closing of each CPM ROR window. In the August 15th stakeholder call, CAISO staff stated that they rely on resource operators to provide in service dates to consider resources for their study and do not typically seek this information from the CPUC. ORA recommends that the CAISO coordinate with the CPUC to gather the latest information on resources that are recently approved or under review for inclusion in its reliability study. Resources under review at the CPUC may meet reliability needs identified two years out and should be included at least as an alternative to the base case. This information would allow LSEs to procure resources to meet future reliability needs at least cost and prevent the CAISO from mistakenly designating a resource as CPM ROR.

ORA also recommends that the CAISO modify its proposal to provide more detail on transparency when it conducts studies, including the content of any studies. The CAISO should notify all stakeholders when a resource seeks a CPM ROR designation and should identify the reliability issues that the CAISO will consider. This notification would allow stakeholders to understand the resources that are seeking CPM ROR and to prepare for review of the reliability study. To provide for more informed feedback, ORA recommends extending the seven day comment period to fourteen days following the study report.

In section d.3 of the proposed tariff, for Type 1 designation, the CAISO states that it may designate a resource as CPM ROR if "[n]o new generation is projected by the CAISO to be in operation by the start of the next RA Compliance Year that will meet the identified reliability need." In section e.3 of the proposed tariff, for Type 2 or Type 3 designation, the CAISO similarly states that it may designate a resource as CPM ROR if "[n]o new generation is projected by the start of the RA Compliance Year following the RA Compliance Year in which the resource will be CPM that will meet the identified reliability need." In the stakeholder call, the CAISO clarified that it intends to consider all resources in its reliability study, such as storage and transmission projects, and not simply new generation. The CAISO should revise sections d.3 and e.3 of the proposed tariff to clarify the types of resources that would be considered in its reliability study.

Additionally, it is not clear why the CAISO would only consider a new resource as an alternative to the generator seeking CPM ROR, if the new resource will be in operation by the start of an RA Compliance Year. For Type 1 CPM ROR designations, this means that if a reliability need is identified for December 2018, new resources would need to be projected in operation by January 2018 to avoid the CPM ROR designation for the generator. For Type 2 and Type 3 designations, if a reliability need is identified for December 2019, new resources would need to be projected to be in operation by January 2019 to avoid the resource's designation as CPM ROR. Based on the current proposed language, even if a new resource is projected to be in operation by mid-2018 or mid-2019 to address the reliability need, CAISO would still provide the CPM ROR designation to the existing generator seeking designation. This would lead to costly CPM RPR contracts when ratepayers would already be paying for the new resource that can address the reliability need. To minimize ratepayer costs, ORA recommends CAISO revise the language to state that it may issue a CPM ROR if no new resource is projected by the CAISO to be in operation by the month of the identified reliability need.

PG&E - PG&E requests that the CAISO confirm that the report posted for resources eligible for CPM ROR designation will specify the study assumptions and analysis used to support the reliability need. The Revised Straw Proposal also indicates that "If no LSE procures the specific resource that was identified by the CAISO as needed for reliability, the CAISO may then procure the resource as CPM ROR capacity." Additional clarity is needed to understand the circumstances when the CAISO would not choose to procure a resource as CPM ROR Capacity if no LSE procures the resource identified by the CAISO as needed for reliability. In addition, PG&E asks that the CAISO clarify in its proposal the types of studies that will be used to determine the reliability need.

SCE - SCE has no comments on this section.

SDG&E - SDG&E requests the CAISO to expand on the reliability study that will be performed. The current Tariff only mentions a CAISO technical assessment in which the resource will be needed for reliability purposes for either locational or operational characteristics. Are the studies different for 2018 versus 2019 as far as methodology? Are the studies different than the existing annual Local capacity technical study or Flexible capacity assessment or the Transmission planning study? If it is different, would those studies have provided the signals to LSEs to indicate such a resource was needed?

SDG&E is concerned with the release of the designation report for the April window. Releasing such information for Type 1 designation sets the floor for the resource. Instead, SDG&E requests the CAISO to consider requiring the resource to issue a solicitation for bids at the same time the report is issued. The resource would be required to accept bids up to the max NQC/EFC of its capacity in descending order of price. The solicitation must be monitored by an independent evaluator to ensure fairness. If there are megawatts uncontracted, then the CAISO's CPM process can supplement the remaining volume at the offer price.

Six Cities - The Six Cities do not oppose the proposed process for study and procurement of resources.

4. Application Requirements, Timelines and Reliability Studies

CPUC – See comments in Sections 2 and 3.

NRG - The CAISO proposes that a resource may not submit a request into the April window (which the proposed tariff language says could be as late as June 30) unless the resource's costs exceed the CPM soft-offer cap. The CAISO's justification for this is that costs this high project the likelihood that the resource will not be selected as an RA resource. This requirement effectively means that a resource whose costs do not exceed the soft offer cap is required to submit their request in the November window. Forcing generator owners to wait until November to seek a CPM ROR designation effectively negates one of the primary reasons why resource owners sought a change in the ROR process, namely, to provide for a longer "runway" with regards to seeking, and the CAISO evaluating and granting, an ROR designation prior to the end of a calendar year, to allow for better planning and coordination. As a result, this new proposed requirement calls into question the value of this initiative.

The CAISO also proposes that a resource owner must submit a binding offer, which must reflect its costs and cannot be changed, when the resource owner submits the resource's costs to FERC. (*See, e.g.,* page 11 of the RSP). Given that a resource must develop a detailed cost-of-service analysis to project its costs (on RSP pages 9 and 16, the CAISO indicates that the resource's costs must be presented through Schedule F of the RMR contract), the CAISO's proposed process means that a resource owner must prepare an expensive and detailed cost-of-service study without knowing whether the resource will be selected and provided with a CPM risk-of-retirement (ROR) designation. This is unduly burdensome and unreasonable.

To address exaggerated fears of the CPM ROR process "front-running" the Resource Adequacy process, the CAISO has decided that the most a resource that receives a CPM ROR designation can be paid is its cost of service. If a particular resource is uniquely needed for reliability, it should not be required to conduct a complicated cost-of-service study before submitting its application. If multiple resources can meet the need, and the CAISO wishes to use economics as one of the factors to choose between resources, it can request the resource owners to develop and submit the cost-of-service information after it is clear that the resource is potentially needed for reliability. It is not reasonable to require a resource owner to prepare the detailed Schedule F information unless there is some basis to conclude that their resource will be required.

On Page 14, the CAISO observes that, for Type 3 designations, it will assume that all resources "not expected to retire" will be available in the year following the next RA year. The CAISO should clarify how it will assess which resources are expected to retire and with are not expected to retire. As the CAISO is well aware, under the current market conditions, all non-contracted resources are at risk of retirement, regardless of their mechanical age. Overly optimistic assumptions regarding which resources will be in operation will yield unreliable results that will lead to the unexpected retirements of resources.

ORA - The Revised Straw Proposal only allows for seven days for stakeholders to review and submit comments on a CAISO reliability study following a CPM ROR application. ORA recommends granting fourteen days for stakeholders to file comments to allow sufficient time to analyze the report and prepare well-reasoned comments. As previously stated in Section 3, the CAISO should notify all stakeholders when any resource seeks a CPM ROR designation and the reliability issues that the CAISO plans to consider. This would inform stakeholders which resources are using CPM ROR and provide more time for their review of the issues related to the potential CPM ROR designation.

PG&E - PG&E encourages the CAISO to consider in its proposal how Type 2 and Type 3 CPM ROR designations for the same area or providing similar system support might give a competitive advantage to resources that seek an early designation but may not have the lowest cost or best reliability characteristics.

SCE - As SCE mentioned on the stakeholder call, SCE does not believe it is completely necessary to require that a requesting entity demonstrate that their costs are above the soft-offer price cap. SCE understands and appreciates that the CAISO should not have to study an inappropriate number of requests and that this threshold helps to accomplish that objective. SCE suggests that instead of setting a threshold the requestor should be required to pay for the cost of the study. By doing so, a requestor will not have a “free option” to determine if they are needed. Rather, the requestor will have to fund the study as a pre-condition to being considered for a Risk of Retirement CPM.

SDG&E - SDG&E does not believe the resource’s costs need to be above the current CPM soft-offer cap price in order to receive a CPM ROR designation. The CAISO should not filter out less expensive but similarly qualified resources from the CPM ROR process. SDG&E cannot find reasonable benefits to keep more expensive resources online over less expensive ones if both are needed for reliability. SDG&E recommends the CAISO clarify its assumption that all resources must have costs greater than the soft offer cap to qualify for CPM ROR. SDG&E supports requiring resources to justify costs with FERC even if it is lower than the soft offer cap.

Six Cities - In general, the proposed application requirements appear to represent a reasonable step forward in terms of developing the process and criteria for Risk-of-Retirement CPM designations, but the Six Cities seek further explanation regarding several aspects of this section of the Revised Straw Proposal. First, the Six Cities ask the CAISO to clarify the binding offer price requirement in the application process for both the April and November windows. (*See* Revised Straw Proposal at 11, 13.) According to the Revised Straw Proposal, resources are required to include with their application materials a binding offer price and will be required to subsequently “file at FERC an offer price that is no higher than the price submitted” in the application. Is the intent of the CAISO that the binding offer price be a cost-based price that either has been or will be approved by FERC, or are applicants permitted to propose a binding offer price that is based on something other than a resource’s costs? The Six Cities request that the CAISO explain how the binding offer price will be used, given that the CAISO proposes to compensate resources that are awarded a Risk-of-Retirement CPM designation according to the cost-based methodology for the Annual Fixed Revenue Requirement for a Reliability-Must-Run Unit as set forth in Schedule F to the *pro forma* RMR Agreement. Additionally, the Six Cities have several specific questions regarding the offer price and compensation:

- The Six Cities request confirmation that the compensation rate for resources that are designated for Risk-of-Retirement CPM will be no higher than the FERC-approved rate.
- Does the CAISO intend that the FERC-approved, cost-based price (calculated according to the RMR methodology) serve as a cap on a resource’s compensation if designated as a Risk-of-

Retirement CPM resource, but that a resource is not precluded from providing a binding offer price that is below the results of the RMR methodology?

- How does the CPM soft offer cap interrelate (if at all) with either the binding offer price or the FERC-approved cost-based rate for Type 1 and Type 3 designations?

The Six Cities also request clarification as to the technical study the CAISO will perform and the criteria that the CAISO will use to assess if a resource should receive a Risk-of-Retirement CPM designation. According to the Straw Proposal, "[f]or Type 2 CPM ROR Designations in the April window, for the resource to be designated as CPM ROR capacity the CAISO must find that the resource . . . *is uniquely situated such that it is the only resource that can meet the identified reliability need*." (Revised Straw Proposal at 11, emphasis supplied.) As the Six Cities interpret the Revised Straw Proposal, the "uniquely situated" standard is limited to Type 2 designations and does not apply to Type 1 or 3 designations, which will be made if the resource is "needed for reliability purposes, e.g., [for] locational or operational reasons . . . and no new generation is projected to be in operation during" the relevant time period. (*Id.* at 11; *see also id.* at 13-14.) Assuming that the CAISO intends to apply a different test to Type 2 designations, as opposed to Type 1 and 3 designations, how are the announced criteria for each designation type different and what is the basis for this? Is the Six Cities' understanding of the Revised Straw Proposal correct in that the "uniquely situated" standard is intended to be a higher bar than the standard for Type 1 and 3 designations? Finally, would it be appropriate for the "uniquely situated" standard apply to all designation types? Lastly, will resources deemed eligible to receive a Risk-of Retirement CPM designation have continuing obligations to participate in competitive solicitation processes for Resource Adequacy contracts once designated? Or does the obligation to participate in such processes end upon designation?

5. Selection Criteria when there are Competing Resources

CPUC - ED Staff has no comment at this time.

NRG - NRG provided comments with regards to the role of costs in deciding between multiple units in the section above. NRG has no other comments on this section.

ORA - ORA has no additional comments at this time.

PG&E - PG&E recommends that the CAISO consider how the reliability assessment for Type 2 and Type 3 CPM ROR designations with a local area or providing system support are evaluated together to ensure that resources with the best characteristics are granted the designations. This also highlights the risk of narrowing the scope to resources that are requesting CPM ROR designations, the proposed process ignores that resources with longer contracts may have higher costs and poorer reliability characteristics than those currently at risk-of retirement.

SCE - SCE appreciates the change to utilize the bid price and minimization of costs where multiple resources have sought a Risk of Retirement CPM but not all of those resources are needed to meet grid reliability needs. SCE supports this change.

SDG&E - SDG&E supports selecting resources based on least cost when there are multiple competing resources.

Six Cities - The Six Cities do not oppose the CAISO's proposal to use existing selection criteria as a tiebreaker when there are multiple resources that could meet an identified need and are eligible for a Risk-of-Retirement CPM designation.

6. Term and Monthly Payment Amount

CPUC - ED Staff has no comment at this time.

NRG - NRG agrees with the CAISO's proposal in this section.

ORA - ORA has no additional comments at this time.

PG&E - No comment.

SCE - SCE agrees with the terms and monthly payments of the new type 1-3 designations.

SDG&E - SDG&E believes setting a minimum term of 12 months may not allow resources that have contracts ending between January 2018 to April 2018 to apply or be designated as CPM ROR under the 2017 windows. In such a case, the resource must wait until April of 2018 prior to applying for risk of retirement. If so, the resource might submit a Type 1 for "immediate" relief or the conventional retirement. If the resource is not needed for 2019 in the case of Type 1 or 2018 for conventional retirement, but is needed for 2020 for Type 2 or 3, then the CAISO would not be able to designate that resource due to the type of application it submits. This would not be an optimal outcome.

Six Cities - The Six Cities generally support this section of the Revised Straw Proposal, including the following elements:

- The proposal to compensate resources each month at 1/12 the annual compensation amount.
- The proposal to make "balance of year" payments for Type 1 designations. The Six Cities do not support retroactively compensating Type 1 resources back to the beginning of the calendar year in which the resource was designated, nor do the Six Cities support dividing an annual compensation amount by the remaining months of the calendar year and compensating Type 1 resources at that higher monthly level.
- The proposal that designated resources will not be permitted to receive Risk-of- Retirement CPM payments while also receiving compensation under Resource Adequacy contracts, Reliability-Must-Run agreements, or other CPM procurement categories.

7. Cost Justification

CPUC – The Revised Straw Proposal states that,

"The pricing formula costs are being determined using the Annual Fixed Revenue Requirement for a RMR unit as set forth in Schedule F to the pro forma RMR agreement in Appendix G of the CAISOs tariff."

It is ED Staff's understanding that Schedule F to the pro forma RMR agreement in Appendix G, does not include major maintenance (capital additions). If this understanding is accurate, then Staff is fine with using Schedule F to the pro forma RMR agreement to determine costs.

If major maintenance is allowed under Schedule F to the pro forma RMR agreement, then Staff objects to the inclusion of major maintenance in the cost.

NRG - The CAISO's decision to not allow a resource to be compensated at the CPM soft-offer cap price and instead require a resource owner to submit a cost-based offer with its ROR evaluation request is problematic, as noted in section 4.

ORA - The Revised Straw Proposal calls for resource owners to file at the Federal Energy Regulatory Commission (FERC) to justify costs, with FERC deciding the level of compensation. The CAISO recommends that FERC apply a pricing formula based on the current Reliability Must Run (RMR) process with the intent that the payments be cost-based.

The initiative proposes to provide resources considered for uneconomic retirement with “a bridge to a future RA year when it is needed for reliability.” Resource owners requesting a CPM ROR designation will trigger a reliability study to determine potential need to retain the resource for reliable grid operation. If a need for the specific resource exists in a subsequent year, the resource will qualify for payments during a bridge period of 6-12 months, after which either the CAISO or a load serving entity (LSE) will negotiate a capacity contract. It is unclear why a bridge payment designed to keep a resource afloat for a short period of time should be based on capacity costs, rather than the costs associated with a temporary shutdown or a cold lay-up.

The CPM ROR concept of providing a bridge payment differs from the other types of CPM processes, which are designed to procure needed capacity rather than simply providing a source of revenue for an unprofitable resource. In the case of a request for a CPM ROR designation, the CAISO study would determine whether the resource’s capacity is not needed in the future, or while the resource’s capacity or operational characteristics are not needed in the current year, the specific resource would be needed in the subsequent year.

While bridge payments are designed to prevent early retirement, the likelihood of a resource actually retiring with a profitable contract guaranteed in the near future seems remote. However, if a bridge payment is determined to be necessary to prevent a resource from retiring, the CAISO should recommend that FERC utilize a cost-based approach for basic maintenance while awaiting the guaranteed contract, rather than the RMR capacity calculation methodology. In Resolution ESRB-6, the CPUC approved a request by Calpine to place its Sutter plant in cold layup. This provides an example of remaining viable with low maintenance costs and notes one resource operator’s choice to expend minimal costs to allow for an eventual restart and avoid permanent retirement. During cold layup, Calpine will provide a five-person team for security and necessary maintenance and continue to maintain Sutter in compliance with all applicable laws, ordinances, regulations, and standards. This includes maintaining all applicable environment permits and meeting all obligations required to ensure a prompt and eventual restart.

<u>PG&E</u> - No comment.

<u>SCE</u> - SCE continues to believe that the cost of major maintenance adders should not be allowed within the costs recovered through the Risk of Retirement CPM. As stated previously, it is too difficult for the CAISO to ensure that the costs incurred are being utilized to provide the capital improvements stated or that the capital improvements are necessary for the resource to continue operation. If the Risk of Retirement CPM is intended to be a bridge mechanism, SCE does not support the mechanism paying for new capital additions.

In addition, the proposal now states:

> Prior to determination by FERC of the resource’s CPM ROR price, the CAISO will use the CPM soft-offer cap price. The price will be subject to refund or surcharge for periods in which the soft offer cap price was applied once FERC determines the applicable cost-based price. After FERC determines the cost-based price, the CAISO will a use the FERC-determined price.

SCE believes that the payment prior to FERC ruling should be the lesser of the soft-offer cap price and the offer submitted by the resource. If the resource has submitted an offer below the cap, there is no reason to pay above their offer prior to acceptance by FERC. The refund and surcharge language should remain as the final FERC ruling could be different than the amount being recovered prior to the FERC ruling.

SDG&E - SDG&E supports requiring resources to justify costs with FERC even if it is lower than the soft offer cap.

Six Cities - The Six Cities support the CAISO's proposal that compensation to designated resources be cost based using the methodology for Reliability-Must-Run resources as described in Schedule F to the *pro forma* RMR Agreement. However, as stated above in response to Question No. 4, the Six Cities request that the CAISO clarify how the requirement to file a cost-based rate at FERC fits with the proposed application requirement to provide a binding offer price.

8. Decision to Accept

CPUC - ED Staff has no comment at this time.

NRG - NRG agrees with the CAISO's proposal in this section.

ORA - The Revised Straw Proposal states that it "does not propose to change the current CPM tariff provision, which allows a resource to accept or decline a CPM ROR designation, i.e. CPM is voluntary." However, it is not clear what would happen if a resource declines a CPM ROR designation. If the CAISO offers the resource CPM ROR designation based on its determination that the resource is need for reliability, yet the resource declines the designation and retires, how would CAISO work with the CPUC to ensure that the reliability need is met? Alternatively, could the resource decline the designation and choose not to retire and attempt to solicit a contract at higher cost than under CPM ROR, knowing that it is needed to meet reliability needs? The CAISO should therefore elaborate on the next steps if a resource declines CPM ROR designation.

Additionally, CAISO's argument relies on its reading of the current tariff to state that CPM ROR is voluntary. However, the tariff discussion regarding declining CPM specifically references Exceptional Dispatch CPM (Sections 39.10.3 43A.2.5.3 and 43A.4.2.1) and does not mention CPM ROR. To clarify the ability of resources to decline a CPM ROR designation, the CAISO should cite the specific language it relies on to determine that CPM ROR is voluntary.

PG&E - No comment.

SCE - As noted on the stakeholder call, SCE believes that if a resource opts not to accept the payment, then the attestation is still binding. That is, the resource would be required to shut-down. In the alternative if the rate provided is a cost based rate approved by FERC, there should be no economically based reason to reject such a payment. If the loss of the resource would result in reliability concerns, it may be justified to require acceptance of the CPM. However, since these reliability concerns are not in the immediate year, the CAISO would need to define the conditions under which they would require a resource to accept the Risk of Retirement CPM.

SDG&E - SDG&E disagrees that CPM is voluntary given that the CAISO's current CPM CSP designations are not voluntary when a resource submits offers into the CAISO's CPM CSP. A resource's owner should already know their decision to accept the CPM ROR designation prior to submitting for CPM ROR protection.

Six Cities - The Six Cities do not oppose the CAISO's proposal that acceptance of a Risk-of-Retirement CPM designation will be voluntary. The Six Cities seek confirmation that resources opting to decline such a designation will remain subject to a potential Reliability-Must-Run designation by the CAISO, consistent with the applicable rules governing RMR procurement.

9. Cost Allocation

CPUC - CAISO proposes no change to the current tariff, which states that if the CAISO makes a ROR CPM designation it will allocate the costs "to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for CPM designation arose."

ED Staff has concerns with this language. Specifically, Staff is concerned that the cost allocation being proposed is inconsistent with the current cost allocation for flexible reliability need. Flexible reliability is for the entire CAISO system and allocated to each Local Regulatory Authority. CPUC allocates the flexible requirements to LSEs using system load ratios. If the CAISO makes a CPM ROR designation due to a flexible system need (as was the case for Calpine's Sutter resource), then the costs should be allocated to all LSEs based on their system load ratios, not TAC area load ratios.

NRG - No comment.

ORA - ORA has no additional comments at this time.

PG&E - No comment.

SCE - SCE has no comments on this section.

SDG&E - SDG&E believes the CAISO should review the cost allocation methodology. For the past several years, the CAISO has studied the San Diego-IV and La Basin Local areas together. In the LCR studies, the CAISO has needed all of San Diego-IV's generation to be online in order to lower that of La Basin's local requirements. This was the optimal outcome. If the CAISO designates a resource in the San Diego-IV area as CPM ROR for purposes of supporting La Basin, then the costs should also be shared with LSEs that serve Load in that TAC area.

Six Cities - The Six Cities do not oppose the CAISO's proposal to use the existing CPM cost allocation provisions in the tariff to allocate the costs of Risk-of-Retirement CPM designations.

10. RA Credits

CPUC - The CAISO proposes no changes to its current tariff which states,

> "The CAISO shall credit CPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entities as follows: to the extent the cost of CPM designation under Section 43A.2.6 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.7, and the designation is for greater than one month under Section 43A.3.7, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.6."

ED Staff does not believe the current language is sufficient to allow for RA credits to transfer to LSEs in a timely manner sufficient to avoid other RA procurement that would have been offset by the credit. LSEs need to have these credits transferred to them in advance of making RA purchase agreements with generators so that it can accurately calculate its RA obligation.

The CPUC has a CAM mechanism that it uses to allocate resource capacity credits/debits based upon the costs allocation of these resources. The CPUC allocates IOUs a debit equal to the aggregate credit allocated to ESPs and CCAs in its service territory. In exchange for the higher RA requirement (debit) the IOU can show the entire CAM resource on its RA plan. This allows the CAISO to see the resource in its CIRA system and to apply the scheduled outage maintenance rules. RMR resources do not flow through this mechanism. CPM resource would not be able to flow through this mechanism because the IOUs would not be able to show this resource in its RA plan.

ED Staff proposes that the tariff language be changed to provide the CPM credit to the LRA for allocation to the LSEs. A CPM credit mechanism would have to be incorporated into the CPUC's annual RA process.

<u>NRG</u> - No comment.

<u>ORA</u> - The Revised Straw Proposal would allocate RA credits to LSEs in accordance with current tariff provisions. The tariff grants RA capacity credits to LSEs on a pro rata basis when capacity payments have been authorized under the CPM processes. As noted above, ORA does not support capacity payments for resources during periods when no need for the capacity exists. During the August 15th stakeholder call, the CAISO noted that capacity payments would provide benefits to LSEs in the form of capacity allocations. Current RA regulations require LSEs to have contracts supplying 100% of their local capacity obligations and 90% of system and flexibility needs for the following year by the end of October. Thus, there would be no benefit to allocating additional local capacity to LSEs after October. LSEs are allowed to true up any shortfalls for system and flexible capacity in month-ahead filings. Based on the proposed process, the earliest any November CPM ROR filings could be allocated by a Local Regulatory Authority (LRA) such as the CPUC would be after the February 22 completion of the ROR process. LSEs must have signed contracts for April by the beginning of March and most likely could not benefit from any assigned capacity until possible inclusion for a June month-ahead filing. The April window provides even less opportunity for LSEs to benefit from allocated capacity, because any assigned capacity for the current year probably would not be available for use until the month-ahead filings for September. Prudent planning and contract negotiations by LSEs are likely to leave few gaps for which the allocated capacity would provide a significant benefit to the LSE's ratepayers.

<u>PG&E</u> - PG&E appreciates the clarification that a provision for CPM ROR procurement credits is already included within the CAISO tariff. PG&E requests that the CAISO provide additional clarity on how a resource that receives a Type 1 designation will count towards the LSE requirement for the balance-of-year determinations to prevent over-procurement due to previous LSE showings.

<u>SCE</u> **-** As discussed during the stakeholder conference call, SCE encourages the CAISO to work with the LRAs to ensure that any allocation of RA credits will work seamlessly with the schedules and processes set forth by the LRA.

<u>SDG&E</u> **-** SDG&E agrees that language exists within the Tariff to allocate capacity credit to LSEs for various CPM designations. However no actual mechanism in the CAISO BPM or the CIRA tool exists to facilitate this process. SDG&E believes this is due to several factors. First, CPM is a backstop mechanism. It is only triggered after LSEs and Suppliers do not submit RA and supply plans to the CAISO that include that resource. Tariff section 43A.3.7 says: "The CAISO shall rescind the CPM designation for any month during which the resource is under contract with an LSE to provide RA Capacity". This phrase intends to allow the resource to continue to seek RA contracts during the ROR designation term and if contracted, it cannot be CPM capacity. Therefore, the resource's capacity cannot be "pre-allocated" to LSEs before the RA showing as it is possible for the resource to be contracted as RA capacity. If the CAISO were to pre-allocate the capacity to LSEs then there would be double counting of the resource's capacity for the showing. Second, the CAISO has consistently said it has never designated CPM for any deficiencies and therefore never had the need to credit capacity to LSEs. This is true with the exception of significant event CPMs in 2012 when the SONGs units were offline. In that year, the CAISO issued several significant event CPM designations for the Huntington Beach Units. The

CAISO on August 9, 2012 extended the CPM designations for an additional 84 days on top of the initial 30-day designation on May 11 and 60-day extension on June 9, 2012. During this time, LSEs did not receive credit for the CPM from the CAISO per Tariff section 43.9(e) of the then relevant Tariff. SDG&E believe the CPUC acted on its own to provide the credit based on the CAISO market notices rather than information submitted per Tariff section 43.9(f). Finally, SDG&E would like to point out that section 43A.9(d) only mentions credit towards the LSE's Demand and Reserve Margin requirements and does not mention Local or Flexible RA requirements. Tariff section 43A.9(a) uses the term LSE's Local Capacity Area Resource obligation to mean Local RA requirements and 43A.9(g) uses the term LSE's Flexible Capacity requirements. If the CAISO designate CPM ROR for purposes of Local and Flexible operational needs, then LSEs should also be credited for those capacity attributes as well.

Six Cities - The Six Cities support the CAISO's proposal to provide credits for procurement of Risk-of-Retirement CPM resources. The Six Cities suggest that the next iteration of the proposal in this initiative provide additional detail as to how the CAISO will implement this credit.

11. Other Comments

CPUC - The CAISO should not make CPM ROR determination prior to the annual RA procurement process. As indicated in prior comments on the Issue Paper, ED staff remains concerned that moving a CAISO Risk-of-Retirement determination to a date prior to the year-ahead filing deadline could result in front running the current RA procurement process.

The CAISO should revise its proposal to highlight the connection between the RMR process used by Calpine for resources at risk of retirement and the CPM ROR enhancements being proposed. In its issue paper the CAISO stated:

> "The limitations of the current CPM risk-of-retirement process were recently highlighted in March 2017 when there were two peaking plants owned by the Calpine Corporation that were at risk of unplanned, early Retirement and were needed for reliability. The CAISO Board of Governors authorized the CAISO to procure the two plants using the CAISO's Reliability Must-Run ("RMR") tariff provisions, rather than the CAISO's CPM backstop risk-of-retirement tariff provisions, because of specific process conditions in the CPM risk-of-retirement tariff. The only viable option was to use an RMR designation, rather than procure the two plants using the CPM risk-of-retirement backstop procurement provisions."

This cited example appears to be one of the main motivations for changing the CPM ROR tariff. However, the revised straw proposal does not mention this example. This highlights a gap in the logic and the need to change the current ROR CPM mechanism. It also raises the question of why a generator would use the proposed ROR CPM mechanism when a less stringent mechanism (RMR) appears to be available.

If the RMR tariff allows generators, such as Calpine, to request studies of need, why would a generator opt to use the ROR CMP mechanism, which requires them to sign an affidavit attesting they will retire? The CAISO should explain how the proposed changes to the ROR CPM mechanism would minimize and/or eliminate incentives for generators to use the seemingly less stringent RMR process.

As CAISO footnoted in its issue paper, "The CAISO prefers to use a CPM designation rather than an RMR designation in risk-of-retirement situations such as the March 2017 Calpine case as the CAISO has been moving away from using RMR since the creation of the RA." However, the straw proposal does not appear to prioritize CPM over RMR. It does not even mention it.

It is also worth noting that the current draft NQC list includes both King City Energy Center and Wolfskill Energy Center. These are two of the four resources Calpine had requested be studied for a reliability need through the RMR process. The CAISO found that these resources were not needed for reliability.

ED staff is concerned about bringing this proposal to the Board of Governors in November 2017. Many implementation and tariff provisions need additional clarifications and discussion (e.g. can generators include capital additions and major maintenance in their proposed costs).

ED Staff requests that more clarification on what exact reliability criteria the April and November study will be looking at and what assumptions will be used for each reliability need. For example if the study is looking at system peak needs will it be using a one-in-two load forecast, for flexible need what assumption will be made about the flexible framework and market conditions. How will demand response resources be counted in the assessment?

CAISO states that it has provided a description of the reliability study that it will perform for each three designation types. The revised Straw Proposal specifically states that,

> "The CAISO technical study will determine whether the resource will be needed for reliability purposes, e.g., location or operation characteristics, by the end of the calendar year following the compliance year in which the resource would receive a CPM ROR designation, and that no new generation is projected to be in operation during that period that could meet the identified need."

Staff does not believe that CAISO has adequately explained its reliability study. Specifically, Staff would like to know what assumptions the CAISO will make about resource retirements, load, and transmission projects. These types of assumptions can have a large impact on the outcome of a reliability study.

NRG - Comments on the proposed tariff language on 43A.2.6.2.1 (f) (1) –

> (1) The resource demonstrated in its request for a CPM risk of retirement designation that it is unlikely to be procured as resource adequacy capacity for the next RA Compliance Year because its $/KW-year price based on the resource's 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 Section 43A.4.1.1. If a resource owner fails to make this showing in its request for a Type 2 CPM Risk of Retirement designation, the CAISO will not study the need for the resource in the window.

The unit's AFRR is the unit's total fixed cost in dollars, while the price specified in 43A.4.1.1 is given in $/KW-year, and the two numbers cannot be compared directly. Further, the indentation on subsections (1), (2) and (3) should be uniform.

ORA - Comprehensive Analysis - ORA concurs with Pacific Gas and Electric Company's (PG&E) comments in the Temporary Shutdown of Resource Operation initiative in which PG&E recommends a more holistic view of the retirement retention process. PG&E observes that: Without analyzing the interplay between the TSRO and a number of related processes - including the CPM ROR and RMR designation processes, annual/monthly RA compliance requirements, and the outage management process – the CAISO risks implementing an initiative that skews generator incentives and leads to significant unintended consequences, including expanding gaming opportunities, which could lead to higher RA procurement costs, or result in a net increase in CPM awards. ORA supports further analysis to assess the severity of the risk of retirement and a comprehensive plan to retain resources needed to secure grid reliability. This comprehensive analysis should include minimizing ratepayer risks and costs while maintaining reliability.

Draft Tariff Language - The draft tariff language should be modified to clarify when resource owners can request a CPM risk of retirement designation. Section 43A.2.6 of the draft currently states,

> The CAISO will provide two windows annually for resource owners to request a CPM risk of retirement designation. To be considered for a CPM risk of retirement designation in a given window, a resource owner must submit a request *by the deadline specified in the BPM for Reliability Requirements for that window. The deadline for the first window will be no later than June 30 of each year, and the deadline for the second window will be after the deadline for submitting annual Resource Adequacy Plans. (emphasis added)*

In the stakeholder call, CAISO stated that they will define the dates of the windows more clearly in the Business Practice Manual (BPM) instead of stating hard dates in the tariff. While this approach may allow the CAISO to make changes to any dates for the windows more easily through the BPM, the current draft tariff language does not sufficiently reflect the Proposal and could create confusion.

The Revised Straw Proposal defines two-week windows that will allow the CAISO to simultaneously assess all resources who apply for CPM ROR during the window. These short windows mitigate the potential for resource owners to gain market information by staggering their resource applications to determine the specific need of each resource. However, the draft tariff language does not define a window and only discusses a deadline for when a window closes and not when it opens. Even though the tariff references the BPM, it only states that a request must be submitted by the deadline in the BPM and not within a specific window. This could lead to an interpretation that a resource owner could apply for CPM ROR in January 2017 for Type 3 designation for 2018 based on any reliability need in 2019, because it is submitted before the deadline for the second window. ORA recommends modifying the draft language to explicitly state that applications should be submitted within a two-week window as defined in the BPM.

PG&E - PG&E appreciates the CAISO's efforts to improve the risk-of-retirement process and the opportunity to comment on the following concerns which are highlighted below and captured in further detail in the subsequent section:

1. PG&E requests the CAISO consider how the reliability assessment for Type 2 and Type 3 CPM ROR designations within the same area are evaluated. PG&E believes the types must be evaluated together to ensure that resources with the best characteristics and lowest costs are granted the designations.
2. PG&E contends that the CAISO specify the process interplay between the Temporary Shutdown of Resource Operations (TSRO), Reliability Must Run (RMR), and the CPM ROR to ensure the various mechanisms are designed to work properly.

Type 2 and Type 3 CPM ROR designations within the same area should be evaluated together to ensure that resources with the best characteristics and lowest costs are granted the designations. The Revised Straw proposal enables generators to seek a Type 2 CPM ROR designation in the April window if it can demonstrate that its costs are above the CPM soft-offer cap and that it has participated in the applicable solicitations. The conditional designation for a resource applying in 2018 would be based upon a reliability need identified in 2020. A resource seeking Type 3 CPM ROR designation in the November window wouldn't have to demonstrate the same requirements but if it applied for the designation in 2018 the reliability need would be based upon 2020. As such, CAISO's proposal should address how the CAISO will evaluate or reevaluate resources that reside within a local area having similar impact on the reliability constraint applying under these circumstances. The process should be designed so that early designations aren't given to resources that don't have the lowest costs or best reliability characteristics.

In addition, the process interplay within this initiative of Type 2 and Type 3 CPM ROR designations further highlights the risks of only evaluating resources imminently at risk of retirement rather than considering the entire portfolio. This process could result in the retirement of a resource that has a lower cost and better reliability characteristics than another resource that may need to make the designation request in the following window and would have to be retained to maintain reliability. The narrow scope of enhancing this existing process may result in the procurement of resources that don't have the best characteristics and supports the need for a more comprehensive process of determining which resources to retain/retire.

The CAISO's Proposal should consider the process interplay between the Temporary Shutdown Resource Operations (TSRO), Reliability Must Run (RMR), and the CPM ROR to ensure the interplay between the various mechanisms works properly. PG&E requests that the CAISO provide a single process map showing how retirement, RMR, temporary shutdowns, and CPM ROR designations will be evaluated within each of the windows within the process. Without understanding how the proposed process enhancements will interact with each of the available options it is difficult to comprehend how unintended market outcomes will be avoided.

SCE - SCE has no comments on this section.

SDG&E - SDG&E requests the CAISO to clarify the must offer obligations for a designated CPM ROR resource. Does the CAISO require flexible RA moo if the resource is only needed for Local operational needs? Is it possible to designate a Local resource for System only needs as the CAISO is expecting to allow unbundling of Local and System RA attributes as part of the RSI Phase 2 Tariff filing? Would the resource be required to submit separate Local, System and Flexible CPM offers for ROR? If the resource receives a CPM ROR designation for Local needs, would the resource be allowed to provide Flexible RA to an LSE? In this case, would the resource be both RA capacity and CPM capacity at the same time? Finally, would the usage of CPM ROR credit by an LSE mean the LSE is relying on CPM as a means of capacity procurement to meet RA obligations?

SDG&E also requests the CAISO to provide detail on what occurs during the two windows if a resource requests CPM ROR. Would the CAISO treat the resource as if it were to retire immediately and thus run an assessment for the remainder of the current year? Or would the CAISO consider the resource as a CPM ROR resource and analyze the impact during the next open window?

Six Cities - The Six Cities have no further comments on the Revised Straw Proposal.