

## Stakeholder Comments Template

Submitted by	Company	Date Submitted
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Please use this template to provide your written comments on the stakeholder initiative "Capacity Procurement Mechanism Risk-of-Retirement ("CPM ROR") Process Enhancements."

Submit comments to [InitiativeComments@CAISO.com](mailto:InitiativeComments@CAISO.com)

**Comments are due June 1, 2017 by 5:00pm (Comment deadline extended to June 6 in a May 26 e-mail from Jody Cross)**

The Issue Paper posted on May 10, 2017 and the presentations discussed during the May 18 and 25, 2017 working group meetings can be found on the [CPM ROR](#) webpage.

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

### 1. Problem Statement and Scope of Initiative

Please provide any comments on the problem statement and scope of this initiative.

#### **Comments:**

The current CPM risk of retirement process is problematic from a timing perspective, in that generators currently have no means of knowing whether they will be needed for reliability on a time scale that allows them to make reasonable decisions about investments and keeping the units operational. The current process encourages putting units to "run to failure" mode because it does not provide investment signals on a time scale that allows for rational decision making.

## 2. Identified Issues

Please provide any comments on the issues that have been identified thus far in the initiative, including if there are other issues that you would like to identify.

### Comments:

It is unreasonable to require that the owner of a generating unit that is under RA contract in Year 1, but not in Year 2, wait until October 31 to *start* the process of determining if their generating unit will be needed in Year 2. Generators typically made investments in power plants three to 12 months ahead of time. Because the process starts so late, generators will not know whether to invest in keeping their plant available, until after the time frame in which such decisions are typically made. As a result, generator availability is likely to suffer or plants will needlessly incur additional costs trying to accelerate necessary plant investment. It is also unreasonable that the CAISO's notice with regards to that determination – either affirming that the unit is needed or indicating that it is not – would not happen until December.

It is also unreasonable to expect that a generating unit owner would be able to attest that their generating unit will retire unless the unit is provided with a CPM designation prior to knowing whether the unit will be given an RA contract.

NRG does not see this process producing a useful outcome. Energy Division staff and some of the Investor-Owned Utility participants have made it clear that they do not want any CAISO process to “front-run” the RA contracting process or give the generating unit owner an indication that their unit is needed prior to the contracting process. Some participants seemed opposed to the CAISO even giving notice prior to the RA contacting period that a resource is NOT needed for Year 2.

NRG also disagrees with concerns that providing generators with notice that they may be needed for reliability creates an opportunity to exercise market power. The Commission already prevents the exercise of market power by permitting LSEs to avoid providing an RA contract to generators seeking more than \$40/kW-month.<sup>1</sup> So a generator that is told that it is needed for reliability would risk not receiving a contract at all if it places a bid into the RA market that is in excess of a competitive bid.

Similarly, the current CPM backstop process does not allow a generator to exercise market power. Notably, CPM designations are discretionary and are only triggered if the CAISO actually needs the resource. Because CPM designations are not guaranteed, it would not be sensible for a generator to forsake a guaranteed 365-day RA payment for a chance at a higher monthly (or two-month) CPM payment. Even where a generating unit owner elects to gamble, the value of a CPM is still significantly below the level that consumers would need to pay for new-build

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<sup>1</sup> See CPUC Decision D.06-06-064 at pages 4, 65-74.

capacity in an area that would be deficient without the generating unit at issue. Finally, the price that a generating unit owner would receive if they did not receive an RA contract or submit a bid into the CAISO's Competitive Solicitation Process but was required by the CAISO to maintain reliability – the CPM soft-offer cap – has effectively been deemed to be free of the exercise of market power, because a generating unit owner that bids to supply CPM capacity at or below that soft-offer cap price is not required to cost-justify their bid.<sup>2</sup> If the best the owner of a generating unit owner that is needed to maintain reliability could get by knowing that their unit was needed is its cost of service or the CPM soft offer cap price – it's not clear how that amounts to an exercise of market power.

While NRG agrees with the CAISO that it would be useful to develop some criteria and process for selecting among multiple units that were indicating that they would not continue operations without a risk of retirement designation, given the unwillingness to change the risk of retirement timing or the timing of RA procurement, that process will have to be squeezed into the end-of-year timing.

Given that it seems very unlikely that the CAISO will be permitted to change any of the timing of the current process, it seems likely that more and more generating unit owners will be abandoning the CPM risk of retirement process and seeking RMR contracts instead, as Calpine did. Given the current impasse, NRG suggests the CAISO terminate this stakeholder process. Should it be necessary, this issue can be taken up in the CAISO's "RA Reform" stakeholder process the CAISO has indicated will be launched in Q3.<sup>3</sup>

### 3. Other Comments

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

#### Comments:

No other comments.

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<sup>2</sup> See CAISO Tariff Section 43A.4.1.1.1.

<sup>3</sup> See Presentation for CAISO May 16, 2017 Market Performance and Planning Forum, slide 87. This presentation is available at [http://www.aiso.com/Documents/Agenda-Presentation-MarketPerformance-PlanningForum-May16\\_2017.pdf](http://www.aiso.com/Documents/Agenda-Presentation-MarketPerformance-PlanningForum-May16_2017.pdf).