Stakeholder Comments Template

Submitted by	Company	Date Submitted
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The California Independent System Operator's (CAISO) *Draft Final Proposal for the Capacity Procurement Mechanism Risk-of-Retirement [CPM RoR] Process Enhancements Initiative* (Draft Final Proposal) would modify the current tariff language to provide enhanced opportunities for resources to apply for capacity payments when they are at risk of retirement, but determined to be needed for grid reliability in a subsequent year.[1] The CAISO posted its Draft Final Proposal on September 13, 2017, and held a stakeholder conference call on September 20, 2017 to discuss the Draft Final Proposal.

The Office of Ratepayers (ORA) does not support the Draft Final Proposal, because it is unlikely to effectively address the issue of early retirement of resources, and could significantly increase ratepayer costs. Rather than adopting the Draft Final Proposal, the CAISO, in conjunction with the California Public Utilities Commission (CPUC), should consider an alternative approach that evaluates need and procurement options over a two to five-year time frame to ensure grid reliability. ORA elaborates on these issues below.

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

Comments:

ORA does not support the Draft Final Proposal because it would allow resource owners to learn whether a resource seeking CPM designation is needed and, therefore, eligible for CPM payments, in advance of seeking a resource adequacy (RA) contract with an Load Serving Entity (LSE). Since CPM payments are generally higher than payments received through an RA contract, this would unfairly tilt the bargaining process between LSEs and resources designated

[1] CPM RoR Draft Final Proposal, pp. 3-5.

as CPM-eligible. Other flaws of the Draft Final Proposal include its failure to define resource retirement, its reliance on anecdotal information rather than a quantification of the currently known risks associated with resource retirements, and the proposal to provide capacity payments to resources before they are needed for reliability.

A. The Draft Final Proposal establishes an April window for resources filing for CPM RoR that would negatively impact bilateral RA contacting.

Currently, the CPM RoR tariff only allows resources to file for CPM RoR and undergo the CAISO's subsequent assessment of need after LSEs have submitted their annual LSE RA filings to the CPUC.[2] ORA opposes the addition of an April filing window, because the April window would negatively impact the process through which LSEs' contract for RA capacity. The April window would allow resources to learn whether they are needed, and hence eligible for CPM capacity payments, prior to the timeframe for seeking a year-ahead RA contract with an LSE. A resource that learns it is eligible for CPM payments before seeking an RA contract with an LSE would gain an unfair advantage in contract negotiations with LSEs, likely resulting in higher ratepayer prices.

B. The Draft Final Proposal allows for gaming opportunities by resource operators.

The Draft Final Proposal would allow resource owners to leverage price differentials between CPM capacity payments and RA payments. During the stakeholder call on September 20, 2017, resource owners inquired about buying out future RA capacity contracts. Resources whose existing RA contracts permit them to buy out their RA contract obligations learned that they could buy out their RA contract obligations and potentially seek a more lucrative option under the Draft Final Proposal. Contracted resources that have already committed to remain online for the contract period would be able to unwind that commitment to take advantage of the CPM RoR reimbursement.

C. The Draft Final Proposal fails to define resource retirement.

The Draft Final Proposal does not define mandatory retirement. Thus, it is not known if a certain time period of inactivity qualifies a resource as meeting the mandatory requirement. For example, would a cold layup qualify as retirement after a certain period of time, and could the resource owner subsequently return the unit to service? Additionally, the CAISO does not propose any requirement for the resource owner to submit its plan for retirement, nor does the CAISO plan to implement a mechanism to verify retirement. If the CAISO moves forward with the Draft Final Proposal, these details should be clarified in the tariff.

[2] CPM RoR Draft Final Proposal, p. 5.

D. No analysis of the risk or extent of potential retirements supports the need to modify the CPM RoR tariff.

The Draft Final Proposal is not supported by any analysis that demonstrates the extent of the retirement risk. Furthermore, the CAISO's primary justification for the need to enhance the CPM RoR tariff is based on its communications with resource owners who would likely benefit from the Draft Final Proposal. Additional data showing that the Draft Final Proposal cost effectively addresses the early retirement issue is required. The Draft Final Proposal is one part of the CAISO's multipronged approach to address risk of retirement issues, which also includes the Temporary Suspension of Resource Operation initiative, changes to the Flexible Resource Adequacy Criteria Must Offer Obligations, and recommendations to revise the CPUC's RA program. The CAISO should provide stakeholders with sufficient evidence to support any proposed changes that would impact ratepayers.[3]

E. Proposed capacity payments unnecessarily compensate resources needed in the near term.

The Draft Final Proposal would allow resources without an RA contract, that have been designated as eligible for CPM in the subsequent year, to receive CPM payments in the interval before the CAISO's determination of need applies. This issue is particularly evident in the CAISO's proposed Type 1 designation in which a resource would be notified in May that it is needed in the next calendar year and would be paid through CPM RoR for the rest of the current year, when it is not yet needed. Ratepayers should not be required to provide capacity payments to resources during periods when those resources are not needed for reliability purposes. It is unlikely that a resource with a profitable CPM contract guaranteed in the near future – a contract very likely to be renewed for multiple years - would retire. Any compensation for resources that currently do not have a RA contract, but have been designated as eligible for CPM payments in the subsequent year should be limited to cold layup costs to maintain future operability. Once the CAISO designates a resource as CPM eligible, the financial concerns of the resource owner should be alleviated. The reliability need and, therefore, the CPM payments would continue until another resource or transmission solution becomes available, or a major drop in load occurs. These events would generally not occur for many years, so a CPM designated resource is likely to receive CPM payments for an extended period of time. Ratepayers should not be required to subsidize a bridge period when the capacity is not needed and capacity credit to LSEs would provide no incremental value to LSEs that have already meet their RA requirements.

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[3] If the analysis contains market sensitive information, the CAISO should at least provide its analysis and hold stakeholder calls for the stakeholders who sign non-disclosure agreements.

F. The Final Draft Proposal includes various mitigation measures that make utilization of the CPM RoR by resources doubtful.

While the Draft final Proposal attempts to prevent gaming and address risks to ratepayers and LSEs identified during the CAISO stakeholder process, it creates a disincentive for resources to use the proposed CPM RoR tariff. Specifically, the Draft Final Proposal includes several protections including mandatory acceptance of the CPM RoR decision, cost-based rather than market-based reimbursement rates, and mandatory retirement when no reliability need is determined in the subsequent year. However, these changes are opposed by many resource advocates and make it doubtful that resources that have not utilized the existing CPM RoR tariff over the last six years will now apply in a new April window. The CAISO should consider that other mechanisms may address the risk of retirement issues that does not inadvertently create new barriers. For example, as demonstrated by the Calpine Sutter facility, resource owners can place plants into cold layup anticipating potential future profits, rather than risking mandatory retirement when no need exists in a subsequent year.

2. Please provide any additional comments.

Comments:

ORA recommends taking a more comprehensive view of the risk of retirement issue in order to develop policies that best address California's future resource needs. The Draft Final Proposal is limited to evaluating only the subsequent RA year. ORA encourages a forward assessment of two to five years to assess future need, along with the consideration of policies to maintain needed resources for reliability. To address the two to five year time frame, ORA recommends that the CAISO work with the CPUC to develop a risk of retirement analysis and work within the CPUC's RA proceeding to create policies to mitigate the risk of retirement for resources needed for reliability.