Stakeholder Comments Template

Submitted by	Company	Date Submitted
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The California Independent System Operator's (CAISO) Straw Proposal for the Capacity Procurement Mechanism (CPM) Risk of Retirement (ROR) Process Enhancements Initiative proposes modifications to the current process to address issues which inhibit use of the CPM designation. The CAISO posted its Straw Proposal on June 20, 2017 and a stakeholder conference call was held on June 27, 2017 to discuss the Straw proposal.

Below are the comments and recommendations of the Office of Ratepayer Advocates' (ORA) on the Straw Proposal.

1. Who can apply

Comments:

ORA supports the proposal to allow all resources, including those with current Resource Adequacy (RA) contracts, to apply for the CPM designation, with the caveat that a resource should not be designated for CPM at the same time it is under contract for RA.[1]

2. Timing

Comments:

The Straw Proposal would provide two windows each year, one in April and one in November, during which resources could apply for CPM ROR designation.[2] The current tariff restricts the filing of CPM ROR applications until the conclusion of the annual load serving entity (LSE) RA

[1] Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements Straw Proposal, June 20, 2017 (Straw Proposal), pp. 13-17.

[2] Straw Proposal, pp. 13-15.

contracting process. The proposed April window responds to the concerns of resource owners that more time is necessary to plan and manage a resource's potential retirement. While the April window would improve the process for resource owners, it could result in negative impacts for LSEs negotiating RA contracts. A resource owner that learned through the CPM ROR process that grid reliability depends on the resource's continued operation would have an advantage in negotiating an RA contract. Resource owners that know they can receive CPM payments in lieu of a bilateral contract would not be motivated to negotiate a contract for less than the price of a CPM payment. This could increase contract prices and associated ratepayer costs.

To level the playing field during contract negotiations, ORA recommends that the CAISO require CPM ROR designated resources to submit RA contract bids that are capped for a duration of time at a reasonable level above the resource's operating expenses. The CAISO also should require all CPM ROR designated resources to submit financial information to confirm the accuracy of their bids.

3. Application Requirements

Comments:

The Application Requirements should ensure that applicants provide sufficient information to allow the CAISO to analyze the need for out of market payments and cannot inappropriately game the mechanism to gain market power. ORA makes the following recommendations to enhance the Application Requirements.

As required in the current tariff, CAISO conducts a complete financial review of the resource to determine whether CPM payments are required to ensure the plant will be available when needed. The CAISO also should analyze whether temporary shut-down or mothballing of a resource is the least-cost option to maintain a plant's availability. CAISO should require the resource owner to explain whether these are reasonable alternatives to CPM, with the financial information to support the resource owner's claims.

The CAISO's proposal states that the company must attest that the "decision to retire is definite unless CPM occurs."[3] In order to uphold the purpose of the CPM designation, the CAISO should clarify that it will enforce retirement if the resource fails to meet one of the three provisions required to avoid retirement: the resource subsequently is sold to a non-affiliated entity; the resource receives an RA contract; or the resource is procured by the CAISO[4]). This clarification ensures that only applicants that are truly at risk of retirement can use this mechanism and not those that simply want to gain knowledge of their market position.

[3] Straw Proposal, p.15.

[4] Proposal, pp. 15-17.

The CAISO proposes that a resource need not retire if it subsequently receives an RA contract, but does not specify the duration of the RA contract. For example, a resource owner seeking market position information could apply for a CPM ROR designation and avoid retirement by subsequently bidding low for a short-term monthly RA contract to avoid retirement. ORA recommends that a resource requesting to avoid retirement through acquisition of an RA contract should not qualify if it bids below its operating costs in obtaining an RA contract.

4. Selection Criteria when there are Competing Resources

Comments:

ORA supports the proposed selection criteria when competing resources apply for the same time frame.[5]

5. Term and Monthly Payment Amount

Comments:

ORA supports this section of the Straw Proposal.[6]

6. Cost Justification

Comments:

The Straw Proposal calls for the Federal Energy Regulatory Commission to decide the level of compensation for CPM ROR contracts with the intent for the CPM payments to be cost-based.[7] ORA supports cost-based payments but recommends that the CAISO also analyze whether temporary shut-down or mothballing the resource is economically feasible. In general, a resource that is not needed in an upcoming year should not be evaluated for operating costs when there is no need for its operation in the bridge period. The CAISO should consider the fact that many businesses remain operational for a short period of time when they expect future profits.

In situations when a resource receives payment to cover full operating costs during a bridge year, ratepayers should receive the benefits of that capacity payment. More specifics should be provided as to how that capacity will be allocated and the associated reduction of LSE RA obligations. The CAISO also should address whether this CPM ROR capacity would impact other resources that are denied an RA contract as a result of a CPM ROR designation of a competing resource.

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[5] Straw Proposal, p. 17.

[6] Ibid.

[7] Ibid.

7. Decision to Accept

Comments:

The proposal adds a new section to the current tariff that allows for a resource to accept or decline a CPM ROR designation. The CAISO should clarify the intent of adding the option for a resource to decline a CPM designation. In addition, the CAISO should address whether a resource may decline a CPM designation and retire when a reliability need exists in a subsequent year.

8. Other Comments

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

Comments:

The tariff requires a reliability study to determine if a resource is needed for any part of a subsequent year.[8] However, CAISO does not provide details on whether it will study alternative resources that could come online in the interim period that could also feasibly meet the reliability need. For example, the results of a study may show that the resource applying in 2017 is not needed until the last part of 2019. Additionally, the study could show that only 10 megawatts (MW) is needed. In this situation, under CAISO's proposal, a resource could receive a bridge payment when only a portion of its capacity is needed in the latter part of 2019. Clearly, given the length of time in this hypothetical situation and the amount of capacity needed for reliability, alternatives should be considered by both the CAISO and the CPUC. CAISO should state that when it conducts a reliability study, it will determine whether any potential resources can also technically address the need. CAISO can then work with the CPUC to determine the most cost effective solution for ratepayers.

[8] Straw Proposal, p. 9.