Comments of Pacific Gas & Electric Company

Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements Straw Proposal

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Capacity Procurement Mechanism Risk-of-Retirement ("CPM ROR") Process Enhancements Straw Proposal (posted on June 20, 2017).

While PG&E appreciates the CAISO's efforts to improve the risk-of-retirement process, as discussed in our Issue Paper comments, limiting the scope of this initiative for purposes of expediency will not achieve an efficient market design. The straw proposal illustrates how the scope of this initiative is too narrow to adequately address the risk-of-retirement and RA program design concerns. A few key concerns are highlighted below.

1) The straw proposal allows generators to obtain a conditional CPM designation that precedes the CPUC bilateral market and could distort market outcomes.

The Straw Proposal enables generators to receive a conditional CPM designation as early as June, which is prior to when LSEs complete their bilateral contracting under the CPUC's RA program. This scenario has the potential to distort the bilateral market. First, generators receiving a conditional CPM will have an incentive to bid their projected CAISO-guaranteed compensation in RA RFOs or the CSP. Second, other generators will adjust their bids in RA RFOs or CSP knowing their competition is bidding at their projected CAISO-guaranteed compensation because of the CPM designation. Even if conditional CPMs are not announced to other market participants, a market power assessment will be necessary for owners of multiple generators to ensure CPM designation does not increase market power in a specific area.

The narrow scope of this initiative cannot overlook these significant impacts to the RA market. As discussed in our Issue Paper comments, the discussion should be much broader than process enhancements to adequately solve the risk-of-retirement and RA program design issues.

2) The straw proposal will require customers to pay for costly, unneeded generation absent coordination with the CPUC

The Straw Proposal's conditional CPM designation does not consider the new market dynamics of multiple LSEs. For example, the Straw Proposal does not specify whether a conditionally CPMed resource will reduce LSEs' CPUC RA procurement obligations. If the conditional CPM designation reduces the LSEs' procurement obligation, this is a de-facto front-run of the CPUC's process. However, if the conditional CPM does not reduce LSEs' RA procurement obligation, it will result in excess procurement of unneeded, expensive capacity. PG&E requests the CAISO work with the CPUC to clarify RA crediting.

While the straw proposal gives LSEs the opportunity to procure the conditionally CPMed resource, this is not likely to happen. LSEs want to procure the lowest cost portfolio for their customers. As the number of LSEs increases, there is less incentive for a single LSE to solely take-on high cost contracts, especially when a CPM designation would more equitably distribute those costs. The number of LSEs is growing significantly: over 30 Community Choice Aggregators (CCAs) within CAISO are either 1) in the process of exploring, 2) launching or 3) in operation.[1] The CPUC is currently reviewing how this growth will impact the RA program, as well as other state policies (Renewable Portfolio Standards, Integrated Resource Planning, Energy Efficiency, and more).

Without consideration of the new retail market reality, the Straw Proposal could result in an inefficient market design that over-procures capacity and places more costs on customers than necessary.

3) The Straw Proposal does not consider how RMR is still a preferred methodology, nor map how a generator will navigate between the RMR, TSRO, Retirement, and CPUC retirement processes.

For a generator, it appears that RMR is still a preferable process. Pursuing an RMR contract does not require an attestation. It does not require a competitive evaluation process against other generators. It can be requested at any time. And an RMR contract achieves the same outcome: cost-of-service recovery.

PG&E requests that CAISO demonstrate how it envisions a generator navigating between the TSRO, Retirement/RMR, CPM RoR, and CPUC RA program processes, as well as clarify the type and duration of reliability assessment performed by CAISO. Without understanding fully how the proposed process enhancements interrelate with these other options, the market runs the risk of incenting unintended behaviors and producing unintended consequences.

4) The Straw Proposal's window periods may encourage bidding behaviors counter to policy goals.

The Straw Proposal does not specify how the reliability assessment is performed with respect to April window applicants compared against November window applicants. This situation has significant market design impacts. For example, assume Resource A applies in the April 2017 window and meets all the requirements for a conditional CPM RoR for 2018. Resource B applies in the November 2017 window. In the November reliability assessment, if Resource B is a better fit to meet a reliability need and/or is lower cost than Resource A, will it be granted the CPM RoR for 2018 instead of Resource A?

- If *yes*: the purpose of having an April window period is nullified, because it will not give generators the runway/certainty to make investment decisions.
- If *no*: there could be a competitive advantage for more resources to apply in the April window, and thus more resources 'front-running' the RA process.

[1] CPUC Community Choice Aggregation *En Banc* Background Paper, prepared for the February 1, 2017 CCA En Banc. Available online: http://www.cpuc.ca.gov/general.aspx?id=2567

- Alternatively, an owner could intentionally stagger its CPM RoR requests between its generators to avoid competition between its own resources.

In addition, the Straw Proposal does not clarify whether generators with partial RA contracts are eligible for the conditional CPM designation. For instance, a resource may only secure an RA contract for the peak load months. Or, a generator may only have an RA contract for part of its capacity. In either situation, it is unclear whether these resources would be eligible for CPM designation in either window period. PG&E encourages CAISO to provide more detail on how it will evaluate the April and November applicants to ensure any contracting strategy does not run counter to an efficient and competitive market.

In addition, PG&E offers the following comments on the Straw Proposal, per CAISO's comment template:

1. Who can apply

Allowing resources currently under an RA contract to apply for the CPM Risk-of-Retirement designation may be appropriate, depending on the particular design of the mechanism.

2. Timing

PG&E supports efforts to have an orderly retirement process that ensures reliability at lowest cost. However, if CAISO is considering having a centralized mechanism to evaluate capacity resources that occurs prior to the bilateral RA market, there should be a larger discussion on the potential impacts on overall market design and what is most optimal for generators and customers.

PG&E has the following concerns (which are described in our comments above):

1. The straw proposal's April window period front-runs the bilateral RA market. If a resource is granted a conditional CPM in April, it does not have an incentive to bid competitively in RA RFOs or CSP markets because the resource knows it can receive cost-of-service recovery.
2. It is unclear in the straw proposal how the reliability assessment is performed with respect to April window applicants compared against November window applicants, which has significant market design impacts. Please see our comments above.
3. The proposal results in higher costs to customers, when there are less expensive alternatives to meet the same goal. Under the current tariff and straw proposal, a resource that is *conditionally* CPMed in April 2017 will not reduce LSEs' RA obligations for 2018. As a result, LSEs will still contract for their full 2018 RA obligations using the lowest cost RA portfolio, while the CAISO also procures surplus unneeded capacity in the 2018 bridge year. An LSE will not will not take on the conditionally CPM'ed resource because it is against an LSE's interest take on the full obligation, as discussed above.

4. Lastly, the straw proposal is not clear on how requests for retirement, which may lead to RMR contracts, fit within this proposal. As suggested in our Issue Paper comments, it would be helpful for CAISO to provide a single process map showing how retirement, RMR, temporary shutdowns, and CPM RoR requests are related, as well as a comparison of the reliability evaluation assessment completed for each process. It is unclear how utilizing the CPM RoR process would be beneficial to generators when pursuing the RMR designation route would be less burdensome (no attestations, no competition, no waiting for window periods) and achieve the same result (cost-of-service contract).

3. <u>Application Requirements</u>

Attestation

PG&E questions whether the three proposed exceptions are meant to be (1) specific and exclusive or (2) illustrative and expansive. PG&E would also request that the CAISO clarify whether temporary shutdowns are also an eligible retirement exception.

April Window Applicants

Additional requirements are appropriate for April Window applicants that have an RA contract. However, the criteria listed are unlikely to be feasible for generators to demonstrate and are subject to discretion. First, a generator cannot prove other resource's costs. While the CPUC's RA report may contain some data, it is from past years, and is not necessarily reflective of current market conditions. Second, there is no baseline for determining what is acceptable for major maintenance costs. Third, it is unlikely that LSEs will provide formal proof that they will not sign a contract with a specific resource, as this distorts the market.

PG&E suggests the requirement for April applicants with RA contracts could be evidence that costs exceed the CPM Soft-Offer cap. This metric is measurable (not subjective) and more feasible for generators to prove. This metric could work because LSEs are not incented to procure RA capacity above the CPM soft-offer cap. Since LSEs are unlikely to contract for RA capacity above that price, designating a resource with costs above the CPM soft-offer cap with a CPM RoR would be significantly less likely to interfere with the RA market.

While our CPM Soft Offer Cap suggestion may be viable alternative to the proposed requirements, PG&E still asserts our concern about the April window period as a problematic design that front-runs the RA process.

4. <u>Selection Criteria when there are Competing Resources</u>

PG&E supports creating a competitive process to determine risk-of-retirement designations to ensure reliability at the lowest possible cost. However, there are several details that are unclear.

1) It is unclear if resources that are not selected through the competitive process will be required to retire, or if they will be able to exercise an attestation exception, or are eligible for a temporary shutdown of resource operations.
2) It is unclear whether the Straw Proposal is suggesting that the selection criteria is based on a resource's most recent CSP bid price or the resource's cost-of-service price.

PG&E requests clarification on these details.

5. Term and Monthly Payment Amount

PG&E supports this clarification.

6. Cost Justification

PG&E finds this change acceptable, however would request that CAISO clarify how this designation is different from RMR, as stated in our comments above.

7. Decision to Accept

No comment.

8. Other Comments

PG&E encourages CAISO to provide stakeholders with a document that maps out options for generators at risk of retirement, and how CAISO would evaluate a generator under each option. PG&E also encourages CAISO to consider broadening this initiative to address the Risk-of-Retirement and RA program design issues as soon as possible.