Metcalf Energy Center RMR Designation
September 26, 2017 Stakeholder Call

Submitted by	Company	Date Submitted
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PG&E provides the following comments in response to the September 26, 2017 stakeholder call presenting the proposed Reliability Must Run (RMR) designation for Calpine's Metcalf Energy Center (Metcalf). In short, PG&E opposes the CAISO's proposed RMR designation on procedural grounds, in particular that CAISO's calling an RMR undercuts the CPM settlement and the California RA bilateral procurement process.

PG&E acknowledges the important role that Metcalf currently plays in ensuring reliability within PG&E's South Bay Local Area and San Jose Subarea. However, longer term fixes will need to be made to CAISO's market rules and procedures to allow for a full evaluation of alternatives or other mitigation options to meet contingency needs in both the short or long term horizon. If CAISO has considered other options particularly for the near term, such as congestion management, PG&E requests this information be made available to stakeholders for review.

PG&E opposes the CAISO's proposed RMR designation on procedural grounds, in particular that CAISO's calling an RMR undercuts the CPM settlement, the Competitive Solicitation Process, and the CPUC RA paradigm.

PG&E believes the CAISO has failed to meet the burden of proof to demonstrate that an RMR is warranted. As a measure of last resort, the RMR designation should only be invoked when all other tariff avenues for procuring needed capacity short of RMR have been exhausted. This is clearly not the case.

The well-established Resource Adequacy (RA) process in California gives the CPUC the initial role in allocating local RA requirements within the jurisdictional IOU service territories, with Load Serving Entities (LSEs) procuring and showing RA capacity for those needs. This process for the 2018 RA year is still on-going through October 31, 2017. Once the RA process is complete, the CAISO has the ability to procure additional capacity, on a backstop basis, for any identified deficiency. By jumping directly to the RMR designation, the CAISO is bypassing the RA process and will distort the bilateral capacity market.

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Section 43A.2.2 of the ISO tariff[1] provides the CAISO with the authority to designate a Capacity Procurement Mechanism (CPM) procurement for a collective Local Capacity Area deficiency, even if all LSEs have met their local capacity obligations. If a specific unit is not shown by any LSE in the local annual showings, the CAISO can still use its authority under this section of the tariff to designate CPM capacity for such units as are needed for local reliability. Further, Section 43A.4 of the CAISO tariff[2] allows for a competitive auction process to be used in determining which capacity should be awarded the CPM. The price paid under this mechanism is subject to a bid cap which was agreed upon as a part of the settlement, with the burden on the resource owner to obtain a waiver at FERC in the event their reasonable costs exceed the bid cap. Further, we believe that the provisions allowing for an offer price in excess of the soft-offer cap were not designed to cover sunk costs of the plant. At a minimum CAISO should assess whether the payments and terms offered to participants requesting RMR's are simply preferable to the CPM option such that generators are likely to make the CPM ROR provisions moot.

As such, we request the CAISO explain why it is seeking the RMR designation without first following its well-defined process for dealing with insufficient capacity to meet local needs through its CPM authority. The CAISO should justify why a non-market solution is preferred in this case, as the likely result will be a procurement process that is more expensive for customers and sends a dangerous signal to other financially distressed resources in the market.

Calpine states in its letter[3] that it would not pursue CPM status for Metcalf. However, the ability for a resource owner to seek CPM status only applies for CPM status for risk of retirement under section 43A.2.6 of the tariff[4], and only then if it has not already been identified as needed to meet a local need. Under the collective local deficiency CPM, Calpine would have the option of rejecting the CPM status for Metcalf only *after* the CAISO has made the designation.

CAISO must explain why it is ignoring these features of its tariff, which were designed for exactly these circumstances, and is instead proposing to jump directly to the designation of an RMR for Metcalf.

Given current capacity market conditions for conventional generators, many other similarly situated units in PG&E's service territory are watching these events closely. The precipitous designation of an RMR for one unit sends a dangerous signal to all and will result in additional units threatening to retire as their RA contracts expire, in order to explore the opportunity to receive a pre-emptive RMR treatment. CAISO should tread extremely cautiously on this ground.

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[1] http://www.caiso.com/Documents/Section43A_CapacityProcurementMechanism_asof_Sep25_2016.pdf at p. 3.
[2] Ibid, p. 13.
[3] http://www.caiso.com/Documents/CalpineLetter_CAISO_MetcalfEnergyCenterRetirementAssessment.PDF
[4] Opcet, p. 7.