



**Capacity Procurement Mechanism
Risk-of-Retirement
Process Enhancements**

Straw Proposal

June 20, 2017

Market & Infrastructure Policy

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1. Executive Summary

In the *2017 Stakeholder Initiatives Catalog* process, there was considerable interest from stakeholders in enhancing the California Independent System Operator's ("CAISO") capacity procurement mechanism ("CPM") process for backstop procurement of resources that are needed for reliability but are at risk of retirement ("ROR").¹ These retirements may be driven by the failure of a resource to earn sufficient revenues when not procured by a load-serving entity ("LSE") for resource adequacy ("RA") capacity. The process for procuring such ROR resources by the CAISO through its CPM backstop procurement authority is contained in section 43A.2.6 of the CAISO tariff.²

The CAISO committed to conduct a stakeholder initiative in 2017 to explore potential enhancements and clarifications to its existing ROR backstop procurement process. Under that process the CAISO may designate a resource that is at risk of retiring during the current RA compliance year if that resource will be needed for reliability by the end of the next RA compliance year. The CAISO is interested in exploring clarifications and modifications that will enhance this process and promote orderly and timely CPM decisions. The CAISO's goal is to implement any process improvements as soon as possible.

This straw proposal describes the plan for stakeholder engagement, scope of the initiative, existing backstop procurement authority, stakeholder comments and CAISO responses, and straw proposal. The key elements of the CAISO's straw proposal include the following tariff clarifications and revisions:

- Any resource, including a resource that is currently RA, can apply for a CPM ROR designation.
- There will be two windows each year – April and November – for resources to submit an application.
- If a resource at ROR is found to be needed for reliability, the CAISO will post a report within 30 days of the closing of the window, and stakeholders will have seven days to comment.
- As with the existing CPM ROR tariff provisions, LSEs will have an opportunity to procure a needed ROR resource before the CAISO designates it as CPM. If the CAISO finds that a ROR resource that is not RA is needed for reliability, LSEs will have until 30 days following the end of the stakeholder comment period to procure the resource. Thereafter, the CAISO can designate the resource and any ROR CPM designation could become effective. If the resource is RA for the remainder of the year, LSEs will have until December 15 to procure the resource. Any CPM designation could not become effective until January.

¹ The CAISO's webpage for the stakeholder initiatives catalog process is available at <http://www.caiso.com/informed/Pages/StakeholderProcesses/StakeholderInitiativesCatalogProcess.aspx>.

² Refer to section 43A applicable after November 1, 2016, available at http://www.caiso.com/Documents/Section43A_CapacityProcurementMechanism_asof_Sep25_2016.pdf

- A resource owner must submit an application at least 90 days prior to terminating the resource’s Participating Generator Agreement.
- There are general application requirements applicable to all applications, and additional requirements for the April window wherein an applicant can show that it is unlikely to receive an annual RA contract for the upcoming RA compliance year.
- Three new provisions will be added to the tariff to state that a resource that has applied for but is not awarded a designation need not retire if the resource subsequently is sold to a non-affiliated entity, the resource receives an RA contract, or is procured by the CAISO as CPM, Reliability Must-Run (“RMR”), or any other applicable capacity procurement provisions.
- The applicant must attest that the resource has offered into all applicable competitive solicitation processes for the current and next RA year.
- If a ROR resource is needed for reliability, the CAISO will be able to communicate in its report that the resource is eligible for a CPM ROR designation, but that any CPM designation is conditional and the resource if selected in a CPM auction or LSE request for proposals (“RFP”) or request for offers (“RFO”) must take that contract rather than the CPM ROR designation if such contract is offered.
- The CAISO will add selection criteria based on other existing CPM tariff provisions to address situations where there may be multiple resources seeking a ROR designation at the same time but the need is such that not all of the resources are likely to be needed and designated as ROR CPM.
- The CAISO will modify the tariff to clarify that the CPM designation will be paid based on a “balance of the year” concept³ and payment for each month of the designation will be based on a calculation of 1/12 per month of the annual compensation amount.
- A resource that has been awarded a CPM ROR must make a filing at the Federal Energy Regulatory Commission (“FERC”) to justify its costs and FERC will decide the resource’s level of compensation. The CPM tariff’s more general soft offer cap price will not be available to resources for CPM ROR.
- The decision by a resource owner to accept or decline a designation will continue to be voluntary.

2. Plan for Stakeholder Engagement

The schedule for this stakeholder initiative is presented in Table 1 below. The CAISO plans to present its proposal to the CAISO Board of Governors for their approval on November 1-2, 2017.

Table 1 – Schedule for this Stakeholder Initiative

Step	Date	Milestone
Kick-off	April 26, 2017	Issue market notice announcing this new initiative
Issue Paper	May 10	Post issue paper
	May 18	Hold stakeholder working group meeting

³ For example, if following the evaluation of applications in the April window, the ISO designates a non-RA resource as ROR CPM on June 30, the designation would be effective for the six remaining months of the year.

Step	Date	Milestone
	May 25	Hold stakeholder working group meeting
	Jun 6	Stakeholder written comments due
Straw Proposal	Jun 20	Post straw proposal
	Jun 27	Hold stakeholder call
	Jul 12	Stakeholder comments due
Revised Straw Proposal	Aug 8	Post revised straw proposal
	Aug 15	Hold stakeholder call
	Aug 28	Stakeholder comments due
Draft Final Proposal	Sep 11	Post draft final proposal
	Sep 18	Hold stakeholder call
	Oct 3	Stakeholder comments due
Final Proposal	Nov 1-2	Present proposal to CAISO Board for approval

To facilitate development of a straw proposal, the CAISO held two working group meetings for stakeholders to exchange ideas. The first working group meeting was held on May 18 and focused on needs and issues. The second working group meeting was held on May 25 and focused on potential process enhancements. Stakeholders actively participated in the two working group meetings and presented their ideas, concerns, and potential process enhancements.

3. Scope of Initiative

The *2017 Stakeholder Initiatives Catalog* described this initiative as follows:

Risk-of-Retirement Process Enhancements - The CAISO's current risk-of-retirement CPM provisions are limited to resources that did not receive an RA contract for the upcoming RA year. Concerns have been raised that this process is problematic because resources do not know whether they will have an RA contract until October 31 of the current year. The initiative will look at process enhancements that would provide for the risk-of-retirement analysis to take place prior to the end of the RA contracting period. In addition, there may be a need for new provisions to address issues related to multiple resources requesting a risk-of-retirement backstop designation for the same RA period.⁴

The scope of this initiative will include the process issues discussed in the *2017 Stakeholder Initiatives Catalog* and reproduced above.

The limitations of the current CPM risk-of-retirement process were recently highlighted in March 2017 when there were two peaking plants owned by the Calpine Corporation that were at risk of unplanned, early retirement and were needed for reliability. The CAISO Board of Governors

⁴ See page 18 of catalog at [2017 Stakeholder Initiatives Catalog](#).

authorized the CAISO to procure the two plants using the CAISO's Reliability Must-Run ("RMR") tariff provisions, rather than the CPM backstop risk-of-retirement tariff provisions, because of process limitations in the CPM risk-of-retirement tariff. ⁵

4. Background

Existing CPM Backstop Procurement Authority

This section provides background information, including a high-level overview of the current CPM tariff authority and the current CPM ROR tariff authority. Appendix 1 of this issue paper provides excerpts of tariff language from section 43A.2.6 of the CAISO tariff that deal specifically with CPM ROR.

CPM Authority in General

The CAISO uses CPM as a last resort to ensure reliable operation of the grid. The CAISO has authority to procure backstop capacity under the CPM tariff provisions under the following situations:

- There is insufficient local, system or flexible RA capacity in year-ahead or month-ahead RA showings;
- A "Significant Event" occurs on the grid;
- There is a reliability or operational need for an Exceptional Dispatch; and
- There is capacity that is currently at risk-of-retirement and is needed in the next RA compliance year.

The CAISO pays CPM capacity a price based on a resource's bid price submitted into the CPM competitive solicitation process, the CPM Soft Offer Cap, or the resource-specific CPM rate authorized by FERC, as applicable. Resource capacity that is procured under the CPM backstop tariff has a must-offer obligation to offer its capacity into the CAISO's markets.

CPM Authority for ROR Situations

Under the current tariff, the CAISO has the authority to designate CPM capacity to keep a resource in operation that is at ROR during the current RA compliance year and that will be needed for reliability by the end of the calendar year following the current RA compliance year. The CAISO cannot issue a ROR designation to a resource that is contracted as RA capacity or listed as RA capacity in any LSE's annual RA plan during the current RA compliance year. ⁶ This is based on the fundamental CPM principle that RA capacity cannot be CPM capacity at the same time. There has been a general belief that resources cannot apply for a CPM ROR designation while they are RA, but a close reading of the tariff shows there is no such express

⁵ The CAISO prefers to use CPM designations rather than RMR designations. In that regard, the CAISO has been moving away from using RMR since establishing the RA program in 2005. The CAISO typically uses RMR in more limited circumstances; and instead prefers to rely on its backstop procurement authority under the CPM tariff, which includes authority to address specified risk-of-retirement situations and keep units needed for reliability in operation.

⁶ Tariff section 43A.2.6 (1).

requirement. As discussed *infra*, the CAISO intends to clarify this in the tariff filing resulting from this initiative to eliminate any confusion.

Some key CPM ROR process conditions under the existing tariff are:

- The CAISO must do a study to determine that the resource is needed in the subsequent RA year;
- The CAISO must post a report and allow no less than 7 days for stakeholders to review and submit comments and no less than 30 days for LSE to procure capacity from the resource; and
- If an LSE does not procure that resource to keep that resource in operation during the current RA year, the CAISO may issue a CPM ROR designation.

Following the annual RA showings on October 31 of each year, the CAISO knows which resources are listed as RA resources for the current RA compliance year. To be eligible for a CPM ROR designation in 2018, the CAISO would need to find that the resource is needed for reliability by the end of the subsequent RA year.⁷ For example, the CAISO might issue a report in 2017 finding that a resource is needed for reliability by the end of 2019. If the resource is not contracted as RA in an LSE's annual RA plan shown on October 31, 2017 or designated as CPM capacity to cure an annual RA deficiency in the October 31 RA plans, the resource could receive a ROR CPM designation effective in 2018. Also, the CPM ROR designation can occur only after the CAISO has issued a report proposing a designation, stakeholders have been permitted to comment on the proposed designation, and the LSE cure period runs its course.

If a resource seeking a ROR designation is not procured, it is expected to retire consistent with its attestation.

The excerpt below of a portion of the current CPM ROR tariff highlights the application process steps. Note that the existing tariff language also requires that the offer submitted by the resource be in accordance with the Competitive Solicitation Process offer rules (43A.4.1) that hold for any other CPM. The conditions also require that the resource has submitted offers for yearly, monthly and intra-monthly CPMs in the current year.

43A.2.6 Capacity at Risk of Retirement Needed for Reliability

The CAISO shall have the authority to designate CPM Capacity to keep a resource in operation that is at risk of retirement during the current RA Compliance Year and that will be needed for reliability by the end of the calendar year following the current RA Compliance Year. The CAISO may issue this risk of retirement CPM designation in the event that all of the following requirements apply:

⁷ The tariff requires that the CAISO show that the resource is needed by the end of the RA compliance year following the current RA compliance year, and there is no deficiency in an LSE's annual RA plan that resulted in the resource seeking a ROR CPM designation receiving a CPM designation for the current RA compliance year, and that all other CPM remedies have been applied.

- (1) The resource was not contracted as RA Capacity nor listed as RA Capacity in any LSE's annual Resource Adequacy Plan during the current RA Compliance Year;*
- (2) The CAISO did not identify any deficiency, individual or collective, in an LSE's annual Resource Adequacy Plan for the current RA Compliance Year that resulted in a CPM designation for the resource in the current RA Compliance Year;*
- (3) CAISO technical assessments project that the resource will be needed for reliability purposes, either for its locational or operational characteristics, by the end of the calendar year following the current RA Compliance Year;*
- (4) No new generation is projected by the CAISO to be in operation by the start of the subsequent RA Compliance Year that will meet the identified reliability need;*
- (5) The resource owner submits to the CAISO and DMM, at least 180 days prior to terminating the resource's PGA or removing the resource from PGA Schedule 1, a request for a CPM designation under this Section 43A.2.6 including an offer price consistent with Section 43A.4.1.1 and the affidavit of an executive officer of the company who has the legal authority to bind such entity, with the supporting financial information and documentation discussed in the BPM for Reliability Requirements, that attests that it will be uneconomic for the resource to remain in service in the current RA Compliance Year and that the decision to retire is definite unless CPM procurement occurs; and*
- (6) The Scheduling Coordinator for the resource has offered all Eligible Capacity from the resource into all CSPs for the current RA year.*

If the CAISO determines that all of the requirements have been met, prior to issuing the CPM designation, the CAISO shall prepare a report that explains the basis and need for the CPM designation. The CAISO shall post the report on the CAISO's Website and allow an opportunity of no less than seven (7) days for stakeholders to review and submit comments on the report and no less than thirty (30) days for an LSE to procure Capacity from the resource. If an LSE does not, within that period, procure sufficient RA Capacity to keep the resource in operation during the current RA Compliance Year, the CAISO may issue the risk of retirement CPM designation; provided that the CAISO determines that the designation is necessary and that all other available procurement measures have failed to procure the resources needed for reliable operation. The CAISO will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs.

CPM ROR Reliability Studies

The CAISO performs technical assessments to determine if the resource will be needed for reliability purposes, typically for its locational or operational characteristics, before the end of the calendar year following the current RA compliance year. Below are a couple of examples, but not the only possible examples, reflecting the CPM ROR process.

Application in April 2017:

Resource is not currently RA. To determine whether the resource is eligible for a CPM ROR designation, the CAISO will undertake a study to determine whether the resource is needed by the end of calendar year 2018. If the CAISO finds the resource to be needed before the end of calendar year 2018, then it may issue a ROR CPM designation to the resource for the remaining months of 2017 (if the resource has not been otherwise been procured by the CAISO or by an LSE during the cure period). For example, to the extent there is a monthly RA deficiency or Significant Event, or the resource is exceptionally dispatched, it may receive a different type of CPM designation in 2017.

Application in November 2017:

Resource is not RA for upcoming year. Under the CPM ROR tariff provisions, the CAISO will undertake a study to determine if the resource is needed for reliability before the end of calendar year 2019. If the CAISO finds the resource to be needed before the end of calendar year 2019, then it may issue a ROR CPM designation to the resource for 2018 (if the resource has not been otherwise been procured by the CAISO or by an LSE during 2018 and *the CAISO did not identify any deficiency, individual or collective, in an LSE's annual RA Plan for the 2018 RA compliance year that resulted in a different type of CPM designation for the resource in the 2018 RA compliance year*).

5. Stakeholder Comments and CAISO Responses

This section provides a high-level summary of the written stakeholder comments that were received on the May 10, 2017 issue paper, as well as the CAISO's responses to those comments. The full version of the written stakeholder comments is provided in Appendix 2.

Scope of Initiative

General Stakeholder Comments - Calpine supports modest modifications to the current process; but cautions that the modifications necessary could result in a process that becomes largely redundant to the tariff that allows RMR designations. CLECA request that the CAISO explain how it will determine future need and provide detailed analyses. CPUC staff is concerned that moving the determination date to a date prior to the year-ahead filing deadline could result in front-running the RA procurement process. DGC believes that a core problem is when resources will know whether they have a RA procurement and given that there is a hybrid market structure, the CAISO should identify the background challenges. PG&E believes the

scope should include a bigger conversation about the CAISO's retirement process and RA program design and this Initiative should be combined with the TSRO initiative and the RMR designation process. NCPA believes that the CAISO should address the problem of insufficient revenue streams rather than tweak existing market rules that might create more problems than they solve or address contingencies that may never arise. NRG believes that the timing of the current process is problematic and encourages putting units in a "run to failure" mode. ORA believes that stakeholders from both sides agree that they are at an impasse with no clear direction forward and major changes to the RA program fall outside of the scope of this initiative. SCE believes that the concerns being discussed are part of larger issues regarding resource retirements, state policy goals, and long-term changes to the market. SDG&E supports enhancing the existing process so that the CAISO has better capability to choose the right resources. Six Cities does not object to process and timing changes, believes that changes to the timing of the RA year are not appropriate, and urges combining this initiative with the TSRO initiative. WPTF believes that the CAISO should focus on small changes that could move forward quickly.

CAISO Response – The CAISO is retaining the narrow scope set forth in the issue paper. . The CAISO agrees that it must be cautious in how the CPM ROR designation process is designed such that it remains a backstop and not a front stop. However, the CAISO also recognizes that resources face numerous requirements to retire a unit, many of which require planning and action far in advance of the actual retirement date. An effective and efficient CPM ROR process should balance both of these considerations and not add to the financial burden of a resource that is already facing economic challenges. The CAISO will include features within the CPM ROR process to prevent abuse of the CPM ROR designation process. The CAISO does not believe this initiative impacts other initiatives. The scope of this initiative is discreet enough to proceed independently of other initiatives, including the TSRO initiative. The CAISO will strive in its proposal to mitigate the potential for resources to be put into a "run to failure" mode. Although enhancing the CPM ROR process may not be simple, the CAISO does not see this initiative as being at an impasse and believes it has crafted a straw proposal that improves the CPM ROR process while addressing concerns such as the potential impacts on bilateral procurement. The CAISO agrees that it is not possible to change the timing of the current overall RA process because that process involves a significant number of entities other than the CAISO. The CAISO intends for this initiative solely to address the provisions of its CPM ROR backstop authority; more global issues such as changes in the industry and electricity markets and the efficacy of the RA program are beyond the scope of this initiative.

Specific Issues

Stakeholder Comments - Calpine believes that the CAISO has properly scoped the issues. CLECA believes that the proposed CPM process may result in "front stop" procurement, is concerned that the CAISO might procure resources that are not actually needed, and believes the CAISO needs to coordinate with several other ongoing initiatives rather than work in isolation. CPUC staff believes that broadening the application eligibility and/or moving up the application date will not provide more certainty to generators, believes the most important issue

is when the CAISO would provide its need determination to generators, supports a deadline or application window, supports the use of existing tariff language to establish a selection process, and does not support a forward need determination as it could lead to front-running the RA procurement process. DGC believes that the forward need determination and deadline issues should be melded together. NCPA supports the requirement that only resources that are not under a RA contract can request a designation, believes “first-come first-served” is the most appropriate approach, states that the decision to accept a designation should be voluntary, states that if the CAISO determines that a resource is not needed the resource should be obligated to retire unless the resource can provide evidence that it has acquired a new revenue source, believes the CAISO should charge the resource owner a fee to perform the study, and states that the CAISO could consider a mechanism to allow a resource to seek an opinion from the CAISO regarding a forward need determination but a final determination could not be made until the CAISO knows which resources have received RA contracts for the following year. NRG believes that it would be useful to develop criteria and a process for selecting among multiple units, says it seems likely that more and more generating unit owners will skip the CPM ROR process and seek RMR contracts instead, and suggests the CAISO terminate this initiative. SDG&E believes that the affidavit continues to play a serious role in the enhanced process. WPTF believes that if the ISO improved the process a little by relaxing the attestation, clarifying the term length, and implementing a deadline once or twice a year the process would at least be workable and constitute a vast improvement over current policy.

CAISO Response – The CAISO agrees that it must be cautious in designing the CPM ROR designation process so it remains a backstop and not a front stop and does not result in procurement that is not needed. The CAISO is working to provide resource owners with information earlier so they can more cost-effectively and efficiently plan for unit retirements. The CAISO’s straw proposal seeks to provide earlier notification while mitigating potential abuse of the application process. The CAISO has slightly changed the provisions of the attestation to reflect reasonable changes in the status of a resource, while at the same time preserving the strength of the provisions to guard against resource owners inappropriately using the application process as a price discovery tool. The CAISO does not believe that it needs to charge a resource owner a fee for performing a CPM ROR study.

Potential Enhancements

Stakeholder Comments - Calpine sees value in the clustering of retirement requests but states that a unit must retain the right to file for a termination of its PGA at any time. Calpine also requests that the CAISO clarify the term of a ROR CPM stating that the current language can be interpreted to allow much more discretion than intended (although it agrees that the term could be represented as the “remaining months of the targeted compliance year”). Calpine also states that if the administrative process requires that a unit remain available while the determination is being finalized either those months should be compensated or the denominator in the price calculation should be adjusted to represent the smaller number of months covered by the designation, and if an attestation is required, it should be modified to allow for reasonable consideration of future conditions. The DCG supports a term equal to the balance of the RA

contracting year and states the attestation should focus on mothballing the resource rather than full decommissioning. NCPA supports retaining the existing tariff provisions and believes that it is not appropriate to adjust a well-functioning RA procurement process for a very limited application of risk-of-retirement. SCE does not see an issue with allowing resources to apply if they are still under contract but do not expect to have an RA contract in a subsequent year. However, SCE believes that a resource should not be informed of any study results until after all aspects of the RA process are completed. SCE states that development of an application window has potential but that it will be necessary to determine how to handle resources that miss an application window. SCE supports using existing CPM selection criteria to guide development of selection criteria, supports consideration of allowing any resource that applies for a CPM ROR to withdraw its application as long as it has not been informed of the study results, and states that the decision to retire should be fixed once the study results are known. Six Cities suggest that the CAISO establish two one-month windows each year, requests information on the type of assessment that would be performed, believes it is reasonable to use existing selection criteria, and does not oppose revising the current attestation requirements to encompass certain contingency situations.

CAISO Response – The straw proposal provides for a form of clustering by providing two windows a year when resource owners can apply for a CPM ROR designation (April and November). The CAISO does not plan to change the current tariff provisions that allow a resource owner to file for permanent termination of its PGA at any time, *i.e.*, the owner is not constrained to submit its notice within a certain window. In the straw proposal, the CAISO has clarified its intent regarding the term of a CPM ROR designation and how the monthly payments will be calculated. The CAISO intends that payments will be prospective for the balance of the year following the effective date of the designation. The CAISO believes some enhancements are needed to the current process, and the straw proposal presents these changes. The straw proposal describes how the CAISO envisions potentially informing resources that they are needed prior to November 1 and the conditions that would be in effect to mitigate potential market impacts. The CAISO proposes to use other existing CPM tariff language as the model for selecting CPM ROR resources if there are multiple resources competing for limited need. If a resource owner misses an application window, it can apply in the next window.

Other Comments

Stakeholder Comments - CLECA believes the CAISO should exhaust the other regulatory avenues available to it to acquire the resources it needs before acquiring capacity on “a front stop” basis. DGC believes that enhancing the CPM ROR and establishing the ability to temporarily shut down a resource will be important structural changes. ORA believes the CPUC, CAISO, and CEC should begin to coordinate, analyze and quantify the risks of retirements and craft the best solutions. SDG&E believes that the timing of a response by the CAISO on the results of its study must not front-run the existing capacity market construct, and provides a recommendations for the CAISO’s initial proposal. WPTF supports SDG&E’s recommendations for the CAISO’s initial proposal.

CAISO Response – The CAISO works closely with other entities and in other regulatory forums to develop effective rules. The CAISO in this initiative is not bypassing those avenues. The CAISO has backstop authority, and this initiative is simply developing enhancements to that existing backstop authority. The CAISO actively coordinates with the CPUC and CEC and is discussing the risks of retirements with those two agencies and in their sponsored forums. As discussed above, the CAISO believes its straw proposal contains elements that will mitigate potential abuse of the CPM ROR application process and not turn the CPM ROR process into a front stop. The CAISO has reviewed SDG&E’s recommendations for an initial proposal and notes that the CAISO’s straw proposal contains many of the same elements suggested by SDG&E. The CAISO believes, however, that it is not appropriate to limit the timeframes when resources can terminate or remove resources from their PGAs.

6. Straw Proposal

The key features of the CAISO’s straw proposal are described below.

Element	Proposal
1. Who Can Apply	<p>The CAISO will clarify the tariff to confirm that any resource, including a resource that is currently RA, can apply for a CPM ROR designation. Thus, both RA and non-RA resources can apply consistent with the timelines proposed below. Capacity under an RA contract may not be designated as ROR CPM and receive CPM payments at the same time it is RA; however, the CAISO will study resources, and if applicable, inform them of their reliability need and CPM ROR eligibility for the next RA compliance year. For example, if a resource is RA in 2017 and seeks a CPM ROR designation for 2018, the CAISO would assess the reliability need for the resource in 2019. Subject to satisfying the conditions described herein, if the resource is needed for reliability in 2019, the CAISO could designate the resource as CPM for 2018.</p>
2. Timing.	<p>The CAISO will provide two “windows” each year when resources can apply for a CPM risk-of-retirement designation. The windows will be open each year during the first-half of the months of April and November.</p> <p>The CAISO will commit to perform a study and, if there are any resources eligible for CPM ROR, consistent with the existing tariff, post a report no less than 30 days after the closing of the window indicating the reliability need for the resource and proposing a CPM designation.</p> <p>The CAISO will retain the following steps in the current tariff after the posting of the designation report: (1) the CAISO must allow no less than seven days for stakeholders to review and submit comments on the report, and (2) the</p>

Element	Proposal
	<p>CAISO must allow at least 30 days for an LSE to procure capacity from that resource before the CAISO could procure the resource under CPM.</p> <p>An <u>example</u> of the timeline for each window if it were in place for 2017 is provided below. The dates shown are for illustrative purposes only. The CAISO will not “hard wire” specific dates in the tariff, but instead will use language such as “within” or “must allow at least.”</p> <p>There are two possible designation scenarios during the April window: (1) resource is not RA in 2017 and the CAISO finds it to be needed in 2018, in which case the CAISO could designate the resource for the remaining months of 2017; or (2) subject to the conditions described herein, the resource is currently RA, found to be needed in 2019, the CAISO can indicate its intent to designate the resource for 2018, and can formally designate the resource as CPM in January 2018.</p> <p><u>April Window:</u></p> <ul style="list-style-type: none"> • April 1-15: Window open for resource to apply • May 15: CAISO issues report explaining basis and need for CPM designation and intent to designate • May 22: Stakeholder comments on report due • June 22: If needed ROR unit is not RA, deadline for LSEs to procure in lieu of CAISO • June 23: If needed ROR unit is not RA and not procured by LSEs, CAISO can designate unit as CPM ROR; if unit is RA, CAISO can “conditionally” designate resource as CPM ROR • December 15: If needed unit is RA, deadline for LSEs to procure instead of CAISO • January 1: Effective date of CPM ROR designation for unit that is RA in 2017. <p><u>November Window:</u></p> <ul style="list-style-type: none"> • Nov 1-15: Window open for resource to apply • Dec 15: ISO issues report • Dec 22: Stakeholder comments on report due • Jan 22: Deadline for LSEs to procure in lieu of ISO • Jan 23: CAISO may designate resource via CPM. Resource must not be RA for 2018 and must be needed before the end of calendar year 2019.
3. Application Requirements	Resource owner must submit application at least 90 days prior to terminating the resource’s Participating Generator Agreement. This 90-days timing is a change from the current 180 days requirement. This corresponds to the 90-day notice period in the Participating Generator Agreement.

Element	Proposal
	<p>The CAISO proposes two sets of application requirements. First, there are general application requirements applicable to all requests for a CPM ROR designation. Second, there are additional requirements applicable to a resource in the April window seeking a designation for the upcoming RA compliance year.</p> <p><u>General Application Requirements</u></p> <p>The application must contain an affidavit from an executive officer of the company and an attestation that it will be uneconomic for resource to remain in service without a designation and the decision to retire is definite unless CPM occurs. The tariff language will continue to state that the application must provide an offer price that will be binding.</p> <p>Three new provisions will be added to the tariff to state that the resource need not retire if the resource subsequently is sold to a non-affiliated entity; the resource receives an RA contract; or the resource is procured by the CAISO.</p> <p>The applicant must attest that the resource has offered into all applicable competitive solicitation processes for the current and next RA year, including both CAISO CPM competitive solicitation auctions and RFPs and RFOs issued by LSEs. This requirement is stronger than the requirement in the current CPM tariff because it requires active participation in all applicable forums, not just the CAISO CPM competitive solicitation auctions.</p> <p><u>Additional Requirements for Resources In April Window Seeking a Designation for Upcoming RA Compliance Year</u></p> <p>The resource would be required to show that it is unlikely to receive an annual RA contract for the upcoming RA compliance year. To satisfy this requirement, the resource can show the following, among other things (it is not required that the applicant show all of the below):</p> <ol style="list-style-type: none"> (1) Demonstrate that its costs are high compared to other RA resources with which it is competing for bilateral RA contracts such that it is unlikely to receive an RA contract. Cost information must be detailed and sufficient to enable the CAISO to determine that the resource likely will not receive an RA contract because it is not cost competitive. At a minimum, applicants must provide cost

Element	Proposal
	<p>information showing their Annual Fixed Revenue Requirement consistent with Schedule F of the RMR agreement and tariff section 43.A.4.1.1.1; or</p> <p>(2) Attest that major maintenance is required for the resource and that absent an RA contract or CPM designation, the resource will not undertake such maintenance, and that such major maintenance will increase its costs to a level that will make it unlikely to receive an RA contract. Provide documentation showing the expected cost of the major maintenance and show that the resource will not be able to recover the costs of such major maintenance through the CAISO's major maintenance adder; or</p> <p>(3) Provide documentation from the load serving entity with which it currently has an annual contract that the LSE will not be procuring the resource for the upcoming RA compliance year; or</p> <p>(4) Provide documentation from LSEs that they are not interested in procuring the resource for the upcoming RA compliance year, the resource is not eligible for any RFOs that they plan to conduct or are conducting, or LSE's will not be conducting any RFOs that apply to the resource.</p> <p>The CAISO will use this information to assess whether it is unlikely that the resource would be procured as RA for the upcoming RA compliance year. This information will also assist the CAISO in determining whether the RA market might be adversely impacted if the CAISO were to conditionally designate the resource for the upcoming RA compliance year in its April window analysis.</p> <p>The CAISO will determine whether CAISO technical assessments project that the resource will be needed for reliability purposes, e.g., locational or operational characteristics, by the end of the calendar year following the compliance year in which the resource would receive a CPM ROR designation, and that no new generation is projected to be in operation during that period that could meet the identified reliability need. The CAISO must find that the resource is uniquely needed.</p> <p>If a resource at risk of retirement is needed for reliability, the CAISO would be able to communicate in its report that the resource is eligible for a CPM designation, but that any CPM designation is conditional and the resource owner, if selected in a CPM auction or LSE RFP or RFO, must take that</p>

Element	Proposal
	contract rather than the CPM designation if such contract is offered to the resource.
4. Selection Criteria when there are Competing Resources	The CAISO will revise the tariff to reflect the selection criteria specified in sections 43A.4.2.2 and 43A.4.2.3 in the event there are multiple resources seeking a CPM ROR designation at the same time, but the “need” is such that the CAISO cannot designate all of the resources. Section 43A.4.2.3 will serve as a tiebreaker.
5. Term and Monthly Payment Amount	The CAISO will modify the tariff to clarify that the CPM designation will be paid based on a “balance of the year” concept and the payment for each month of designation will be based on a calculation of 1/12 per month of the annual compensation amount. Consistent with the existing tariff, CPM resources do not receive CPM payments for capacity that is shown as RA in a given month.
6. Cost Justification	To be paid for an awarded CPM ROR offered by the CAISO, the resource owner must make a filing at FERC to justify its costs, and FERC will decide the level of compensation. This process, and the pricing formula, is similar to the existing CPM cost justification tariff provisions. The CPM tariff’s more general soft offer cap price will not be available to resources seeking CPM ROR designations. The intent is for CPM ROR payments to be cost-based.
7. Decision to Accept	The CAISO does not propose to change the current CPM tariff provision, which allows a resource to accept or decline a CPM ROR designation, <i>i.e.</i> CPM is voluntary.

7. Next Steps

The CAISO will discuss this straw proposal with stakeholders during a conference call on June 27, 2017. Stakeholders are encouraged to submit written comments by July 12, 2017 to initiativecomments@caiso.com.

Excerpts from Section 43A of CAISO Tariff Regarding CPM Risk-of-Retirement

43A.2 Capacity Procurement Mechanism Designation

The CAISO shall have the authority to designate Eligible Capacity to provide CPM Capacity services under the CPM to address the following circumstances, as discussed in greater detail in Section 43A:

1. Insufficient Local Capacity Area Resources in an annual or monthly Resource Adequacy Plan;
2. Collective deficiency in Local Capacity Area Resources;
3. Insufficient Resource Adequacy Resources in an LSE's annual or monthly Resource Adequacy Plan;
4. A CPM Significant Event;
5. A reliability or operational need for an Exceptional Dispatch CPM;
6. Capacity at risk of retirement within the current RA Compliance Year that will be needed for reliability by the end of the calendar year following the current RA Compliance Year; and
7. A cumulative deficiency in the total Flexible RA Capacity included in the annual or monthly Flexible RA Capacity Plans, or in a Flexible Capacity Category in the monthly Flexible RA Capacity Plans.

43A.2.6 Capacity at Risk of Retirement Needed For Reliability

The CAISO shall have the authority to designate CPM Capacity to keep a resource in operation that is at risk of retirement during the current RA Compliance Year and that will be needed for reliability by the end of the calendar year following the current RA Compliance Year. The CAISO may issue this risk of retirement CPM designation in the event that all of the following requirements apply:

- (1) The resource was not contracted as RA Capacity nor listed as RA Capacity in any LSE's annual Resource Adequacy Plan during the current RA Compliance Year;
- (2) The CAISO did not identify any deficiency, individual or collective, in an LSE's annual Resource Adequacy Plan for the current RA Compliance Year that resulted in a CPM designation for the resource in the current RA Compliance Year;
- (3) CAISO technical assessments project that the resource will be needed for reliability purposes, either for its locational or operational characteristics, by the end of the calendar year following the current RA Compliance Year;
- (4) No new generation is projected by the CAISO to be in operation by the start of the subsequent RA Compliance Year that will meet the identified reliability need;
- (5) The resource owner submits to the CAISO and DMM, at least 180 days prior to terminating the resource's PGA or removing the resource from PGA Schedule 1, a request for a CPM designation under this Section 43A.2.6 including an offer price consistent with Section 43A.4.1.1 and the affidavit of an executive officer of the company who has the legal authority to bind such entity, with the supporting financial information and documentation discussed in the BPM for Reliability Requirements, that attests that it

- will be uneconomic for the resource to remain in service in the current RA Compliance Year and that the decision to retire is definite unless CPM procurement occurs; and
- (6) The Scheduling Coordinator for the resource has offered all Eligible Capacity from the resource into all CSPs for the current RA year.

If the CAISO determines that all of the requirements have been met, prior to issuing the CPM designation, the CAISO shall prepare a report that explains the basis and need for the CPM designation. The CAISO shall post the report on the CAISO's Website and allow an opportunity of no less than seven (7) days for stakeholders to review and submit comments on the report and no less than thirty (30) days for an LSE to procure Capacity from the resource. If an LSE does not, within that period, procure sufficient RA Capacity to keep the resource in operation during the current RA Compliance Year, the CAISO may issue the risk of retirement CPM designation; provided that the CAISO determines that the designation is necessary and that all other available procurement measures have failed to procure the resources needed for reliable operation. The CAISO will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs.

43A.3 Terms Of CPM Designation

43A.3.7 Term - Capacity at Risk of Retirement Needed For Reliability

A CPM designation for Capacity at risk of retirement under Section 43A.2.6 shall have a minimum commitment term of one (1) month and a maximum commitment term of one (1) year, based on the number of months for which the capacity is to be procured within the current RA Compliance Year. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year. The CAISO shall rescind the CPM designation for any month during which the resource is under contract with an LSE to provide RA Capacity.

43A.4 Selection of Eligible Capacity under the CPM through Competitive Solicitation Processes (CSP) and General Eligibility Rules

In accordance with Good Utility Practice, the CAISO shall designate and compensate Eligible Capacity as CPM Capacity based on the results of either the Annual CSP, the Monthly CSP, or the Intra-monthly CSP.

The CAISO shall designate CPM Capacity through the Annual CSP to meet designations triggered under sections 43A.2.1.1, 43A.2.2, or 43A.2.3 (if the failure is to demonstrate sufficient Resource Adequacy capacity in an annual Resource Adequacy Plan), and 43A.2.7(a) (if the failure is to demonstrate sufficient Flexible Resource Adequacy capacity in an annual Flexible Resource Adequacy Plan).

The CAISO shall designate CPM Capacity through the Monthly CSP to meet designations triggered under sections 43A.2.1.2, 43A.2.3 (if the failure is to demonstrate sufficient Resource Adequacy capacity in a monthly Resource Adequacy Plan), or 43A.2.7(b) (if the failure is to demonstrate sufficient Flexible Resource Adequacy capacity in a monthly Flexible Resource Adequacy Plan).

The CAISO shall designate CPM Capacity through the Intra-monthly CSP to meet designations triggered under sections 43A.2.4 or 43A.2.5.

The selection criteria in this Section 43A.4 shall not, however, apply to making a risk-of-retirement CPM designation under Section 43A.2.6.

43A.4.1 Offer Rules to the CSPs

43A.4.1.1 Price Component of a CSP Offer

Offers of capacity to a CSP shall contain a single price denoted in units of \$/kW-month. The price offered into a CSP shall not be less than zero. Offer prices are subject to the CPM Soft Offer Cap of \$6.31/kW-month (\$75.68/kW-year). CPM Capacity shall not be compensated by the CAISO at a rate higher than the CPM Soft Offer Cap unless a Resource Owner of Eligible Capacity makes the required resource-specific cost filing with FERC pursuant to Section 43A.4.1.1.1.

43A.4.1.1.1 Exceeding CPM Soft Offer Cap through a Resource-Specific Cost Filing with FERC

A Scheduling Coordinator for a resource may offer a price in excess of the CPM Soft Offer Cap. The resource owner whose capacity is offered in excess of the CPM Soft Offer Cap must justify in a filing to FERC a price above the CPM Soft Offer Cap, which shall be determined in accordance with the methodology for determining the Annual Fixed Revenue Requirement of an RMR unit as set forth in Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. For a resource whose sales are under FERC jurisdiction that is providing CPM Capacity to be compensated at a rate higher than the CPM Soft Offer Cap, the resource owner must make a limited resource-specific filing before FERC to determine the just and reasonable capacity price for the resource as calculated per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

If the sales from the resource are not under the jurisdiction of FERC, the resource owner shall make a non-jurisdictional filing with FERC to determine the just and reasonable capacity price for the going forward costs for the resource as calculated per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

A resource owner may make a cost justification filing at FERC either before it offers a resource into the competitive solicitation process or after having capacity designated as CPM Capacity. If the resource owner has not made the cost justification filing before the capacity was designated as CPM Capacity, then the resource owner must make its cost justification filing with FERC within 30 days of the CPM designation. If the resource owner fails to make such cost justification filing within 30 days, then the CAISO shall deem the effective CPM Capacity price for the resource to be the CPM Soft Offer Cap. The resource owner may not propose – and shall not be compensated based upon – an offer price higher than the price submitted in its bid to the CAISO for the designated capacity.

A FERC-approved resource-specific CPM Capacity price shall remain in effect for the remainder of the calendar year in which it is approved and for the subsequent two calendar years, unless superseded by a subsequent FERC-approved CPM Capacity price during that period. Although a FERC-approved resource-specific CPM Capacity price will be denoted in units of \$/kW-year, that \$/kW-year figure will be divided by 12 so that compensation will be in terms of \$/kW-month.

A resource that has obtained the appropriate FERC authorization in response to the cost justification filing described in this Section 43A.4.1.1.1 for a rate higher than the CPM Soft Offer Cap is not precluded from submitting a bid into the competitive solicitation process that is below the FERC-authorized rate and, if selected pursuant to such a bid, will be compensated based on that lower bid.

43A.4.1.2 Quantity Component of a CSP Offer

Offers to a CSP shall contain a single quantity denoted in units of kW-month representing the quantity of capacity being offered as RA Capacity and a single quantity denoted in units of kW-month representing the quantity of capacity being offered as Flexible RA Capacity. The entire quantity of capacity included in a Scheduling Coordinator's offer must be capacity over which the Scheduling Coordinator either: (1) holds ownership or contractual rights to offer into a CSP; or (2) has been authorized to offer into a CSP by the entity that holds ownership or contractual rights to that capacity.

The quantity of capacity offered into a CSP from a generating resource located outside the CAISO Balancing Authority Area shall not exceed the lesser of: (1) the Pmax of the resource providing the capacity; and (2) the allocated import capability held by the Scheduling Coordinator of the resource less any capacity of the resource that is Committed RA Capacity for the term covered by the CSP to which the capacity has been offered. If an offer is for both Flexible Capacity and RA Capacity and the resource receives an annual or monthly CPM designation for one type of capacity, then in any following CSPs that overlap in time with the CPM designation, the CAISO, on behalf of the resource, automatically will offer the non-designated type of RA capacity into the overlapping CSP(s) at \$0/kW-month up to the minimum of the amount available as non-RA capacity and the amount of capacity originally designated.

43A.4.1.3 Exception to Offer Rules for Annual CSP – Different Prices for Different Months

A Scheduling Coordinator for Eligible Capacity may offer into the Annual CSP varying prices in the form of \$/kW-month for different months of the Annual CSP if the Scheduling Coordinator wishes the CAISO to consider varying offer prices for individual months in the Annual CSP.

43A.5.2 Obligation to Provide Capacity and Termination

The decision to accept a designation as CPM Capacity shall be voluntary for the Scheduling Coordinator for any resource. If the Scheduling Coordinator for a resource accepts a CPM designation, it shall be obligated to perform for the full quantity and full period of the designation with respect to the amount of CPM Capacity for which it has accepted a CPM designation. If the Scheduling Coordinator for a resource accepts a Flexible Capacity CPM designation, the resource shall be obligated to perform for the full quantity and full period of the designation,

subject to the must-offer obligation in Section 40.10.6 that applies to the Flexible Capacity Category of the resource that was designated. If a Participating Generator's or Participating Load's Eligible Capacity is designated under the CPM after the Participating Generator or Participating Load has filed notice to terminate its Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement or withdraw the Eligible Capacity from its Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement, and the Scheduling Coordinator for the resource agrees to provide service under the CPM, then the Scheduling Coordinator shall enter into a new Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement, as applicable, with the CAISO.

43A.6.1 CPM Designation Market Notice

The CAISO shall issue a Market Notice within two (2) Business Days of a CPM designation under Sections 43A.2.1 through 43A.2.6. CPM designations as a result of Exceptional Dispatches shall be subject to the reporting requirement set forth in Section 34.9.4. The Market Notice shall include a preliminary description of what caused the CPM designation, the name of the resource(s) procured, the preliminary expected duration of the CPM designation, the initial designation period, and an indication that a designation report is being prepared in accordance with Section 43A.6.2. For Exceptional Dispatch CPM designations, the market notice shall additionally indicate whether the designation was made to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need, specify the quantity of the Exceptional Dispatch CPM capacity that was procured and the Exceptional Dispatch CPM Term, and identify the engineering assessment the CAISO used to determine the quantity of capacity needed from the resource to address the reliability issue.

43A.8 Allocation of CPM Capacity Payment Costs

For each month, the CAISO shall allocate the costs of CPM Capacity Payments made pursuant to Section 43A.7 as follows:

43A.8.7 Allocation of CPM Costs For Resources at Risk of Retirement

If the CAISO makes any CPM designations under Section 43A.2.6 for resources at risk of retirement needed for reliability, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the CPM designation arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

Appendix 2

Stakeholder Written Comments on Issue Paper

This section of the straw proposal provides the full written comments submitted by stakeholders. The CAISO has summarized these comments and provided responses in section 5.

Problem Statement and Scope of Initiative

Calpine - Calpine supports modest modifications to the CPM Risk-of-Retirement (“RoR”) process to make it more practical to those who may wish to use it. However, it appears to Calpine that the modifications necessary to make CPM RoR reasonable (as discussed below) result in a process that becomes largely redundant to the tariff conditions allowing RMR designations.

At the outset, Calpine observes that there appears to be a growing consensus for centralized and forward procurement of local resources. As suggested by PG&E, SDG&E and conditionally, by SCE, there is a compelling chorus of parties seeking a “glide-path” to local capacity procurement in the face of gradual, but extensive dependence on renewable resources.

Parties have different motivations to define a better glide-path. The current gas-fired generators, like Calpine, face deteriorating market dynamics and difficult decisions to either suspend operations or seek compensatory RA or backstop contracts. Unabated, the CPM RoR process constrains and forces both the CAISO and the generator into a position of unreasonable brinkmanship late each year. Even then, a generator may have no line-of-sight to sufficient compensation to undertake incremental capital expenditures – such as major maintenance or efficiency and environmental upgrades.

The utilities face shrinking load profiles, as Community Choice Aggregators and potentially new Direct Access Customers take the load obligation. They reasonably seek a reasonable allocation of the costs of reliability resources to all who benefit.

Forward procurement of local reliability units by the CASIO solves both concerns – generators are given a forward planning window and retirement signal and if structured reasonably utilities are given a just and reasonable allocation of costs. Additionally, with forward contracting, the process avoids the “front-running” problem by moving RA contracting well in-advance of retirement decisions.

CLECA - The CAISO’s problem statement seems to be as follows: The CAISO will offer a Risk of Retirement CPM designation to a plant which is under contract for the current RA year (e.g. 2017) but is certain not to be procured for the following RA year (e.g. 2018) and therefore qualifies for a Risk of Retirement CPM designation for the year following the year in which it does not have an RA contract (e.g. 2019). Moreover, the CAISO wants to grant such designation not when the RA designations for the following year (e.g. 2018) are announced, i.e., on Oct 31 of the current RA year, but in March of the current RA year (e.g. 2017). The problem statement, viewed thus, immediately raises a whole host of questions. (1) How can the generator or the CAISO know with certainty that the unit *will not* qualify for RA in the following

year (e.g. 2019)? (2) Moreover, how can the unit's future status be known with certainty nearly two years in advance, namely in March of the current RA year (e.g. 2017)? (3) How will the CAISO establish a determination of need in that future year? (4) What if more than one plant seeks such a designation? (5) Will the CAISO grant the Risk of Retirement CPM designation on a first-come first-served basis or will it have to conduct analyses of all such requests simultaneously in order to determine which plants are most qualified to meet any future need based on ramping capability, flexibility, cost, etc.? (6) Even after conducting analyses for local, system, and flexible RA, how will the CAISO determine how many such plants will be needed? (7) If the RA analyses are thorough and there is sufficient procurement, shouldn't the RA resources be able to meet all of the CAISO's reliability needs? (8) Since, with migration to Community Choice Aggregation (CCA), as well as with increasing levels of energy efficiency, the load is trending downward in the future, what are the chances that a fossil fuel plant without an RA contract will be needed in the future under the circumstances that the CAISO has described? (9) Will the CAISO be bypassing the RA process if it offers CPM designations *before* RA allocations are announced?

During two full days of workshops conducted by the CAISO, stakeholders raised and debated these questions. However, at the conclusion of the two days, the stakeholders participating in the CAISO initiative seemed to be at an impasse. It is not clear to CLECA, therefore, if the problem statement is the correct one. Conversely, if the problem statement is the correct one, then the CAISO needs to support it with an explanation of how it will determine future need and detailed analyses of that need so that stakeholders can clearly see situations in which bypassing the RA program through this initiative is not only necessary but is essential.

CPUC - Energy Division (ED) staff appreciates the CAISO's efforts to reconsider and potentially revise its risk-of-retirement Capacity Procurement Mechanism (CPM), but staff is concerned that the identified problem and scope of the initiative are potentially confusing and misleading. In its issue paper, CAISO identified problems with its current CPM risk-of-retirement tariff and cited the following example: "The limitations of the current CPM risk-of-retirement process were recently highlighted in March 2017 when there were two peaking plants owned by the Calpine Corporation that were at risk of unplanned, early retirement and were needed for reliability. The CAISO Board of Governors authorized the CAISO to procure the two plants using the CAISO's Reliability Must-Run ("RMR") tariff provisions, rather than the CAISO's CPM backstop risk-of-retirement tariff provisions, because of specific process conditions in the CPM risk-of-retirement tariff." However, the current risk-of-retirement CPM tariff applies only to generators that will not be needed in coming compliance year, but would be needed in the following compliance year 2. During the working group, it became clear that the Calpine peakers would not have been eligible for the risk-of-retirement CPM, even if the potential enhancements were made to the CPM process, because the peakers are needed for the coming compliance year. Additionally, it also became clear through the stakeholder group discussion that most, if not all, generators that seek a risk-of-retirement designation would not be eligible because few resources would be needed in year 2 but not in year 1. Therefore, the magnitude of the problem this initiative is trying to solve is not only small, but possibly non-existent. After reviewing the straw proposal and participating in both working groups, ED staff is concerned that moving the CAISO risk-of-

retirement determination date to a date prior to the year-ahead filing deadline is not workable and could result in front running the current RA procurement process.

DGC - DGC agrees that a core problem is the timing element and when resources will know whether they have a RA procurement. Related problems are more CPUC LTPP/IRP regulatory design-related than a Tariff structure problem insofar as there is no path for competition across existing gas capacity resources for follow-on contracts before existing contracts expire, putting owners in a difficult position relative to maintaining ongoing availability to CAISO after the current contracts expires.

In the “hybrid market structure” that the CPUC has adopted, it is the non-utility owned generation (which is a majority of system and local capacity) that is subject to the follow-on contracting problem. Existing utility-owned generation which is not subject to a contract term does not have to compete in the market to maintain viability. Moreover, the CAISO markets historically have not been sufficiently compensatory to support existing generation. With the addition of significant levels of zero fuel-cost generation, market clearing energy prices in many hours would not support variable O&M costs for existing, dispatchable capacity. These background challenges should be identified in the issues statement. Problem Statement and Scope of Initiative should also note a RA process design problem whereby LSEs subject to RA procurement obligation can meet the procurement rule, but CAISO will still end up with a supply sufficiency problem because not enough MWs with sufficient “effectiveness” are procured for specific local areas (sometimes referred to as a collective deficiency).

PG&E -1. The scope of this initiative does not address the underlying problem: we need a bigger conversation about the CAISO’s retirement process and RA program design.

The CAISO’s market is undergoing significant changes. Historically, IOUs served the majority of load and could balance procurement in local areas to ensure reliability while meeting Resource Adequacy (RA) program design. But with the growth in number and size of Community Choice Aggregators (CCA), IOUs are less able to conduct multi-year RA procurement, and even have led IOUs to sell their excess procured capacity. This means non-IOU LSEs are becoming responsible for ensuring the “right” capacity is contracted to meet reliability needs. With each LSE wanting to keep costs low, specific RA requirements from resources in local areas become more important, as no one LSE would have the incentive to procure uneconomic resources or maintain uneconomic owned resources but might be needed by CAISO to reliably operate the system. Unless significant changes are made to the whole RA framework in California, CAISO will likely be forced to take on a more active role to ensure reliability (e.g. through the CPM backstop process).

The aim of this initiative is to improve the CPM procurement process of resources that are needed for reliability, but are at risk of early retirement due to a lack of Resource Adequacy (RA) capacity contracts by Load Serving Entities (LSEs). However, LSEs continue to meet their RA obligations in each monthly showing, suggesting that the right amount (system RA), location (Local RA), and operational characteristics (Flex RA) are being procured by LSEs. If LSE’s are picking the “wrong” RA in the bilateral process to meet the CAISO’s reliability needs, various

solutions are likely needed - from redefining RA products to redesigning the CPM backstop process to better enable the CAISO to procure needed generation.

Limiting the scope of this initiative to process enhancements may create more problems than it solves. Its sole focus on process enhancements is problematic because the process enhancements do not consider potential consequences on the bilateral market. For instance, a key problem statement presented in this initiative is that generators do not have sufficient time to make retirement decisions if they must wait until after the CPUC's RA filing deadline for a 'need' determination. In response, several stakeholders asked whether notifying generators on October 1 (instead of October 31) would work because it could give generators a little more runway, and provide LSEs an opportunity to negotiate for a lower price than the CPM cap.

PG&E does not consider this a viable solution for several reasons. First, it interferes with the bilateral procurement process; namely, if a generator knows it is needed and can obtain capacity prices near the CPM soft offer cap prior to the CPUC's RA filing date, a generator can undercut the competitive nature of the bilateral market. Second, LSEs want to procure a low-cost portfolio. There is no incentive for an LSE to solely take on an expensive RA contract, when the CPM process would distribute that obligation fairly to all LSEs in the TAC area. In other words, as the number and size of CCAs increase, it will be increasingly unrealistic to assume a single LSE will take-on a high cost RA contract. Lastly, LSEs may have already contracted to meet their requirements and not need the generation. For LSEs that choose to wait until the ISO's RoR determination is complete, fewer generators will receive RA contracts, meaning more generators will not know if they have a contract until later in the RA bilateral process – which is the opposite intent of this initiative.

As this example illustrates, the scope of this initiative cannot be contained to process enhancements, because there are generator market power consequences, LSE dynamics at play, and jurisdictional considerations. Limiting the scope to process enhancements falsely suggests there is a simple fix without needing to assess the larger scale impacts. There is no 'quick fix' to the RoR problem; we need a broader conversation about the CAISO's future role in reliability procurement.

2. This Initiative should examine how the CPM process can be combined with the Temporary Suspension of Resource Operations (TSRO) Initiative and the Reliability Must-Run (RMR) designation processes, and specify how each process fits together and with the CPUC's RA program.

In either case, continuing down the process enhancements path, or addressing Risk-of-Retirement directly in a broader conversation, it would be helpful for the CAISO to provide information on how it envisions the CPM RoR, TSRO, and RMR processes interrelate. The CAISO should provide its perspective on how it views the primary purpose of each designation, any inconsistencies or overlaps, the likely compensation that would be available to generators under each method, and how orderly retirement of excess generation could be achieved. In addition, it would be helpful for the CAISO to overlay these processes with the CPUC's RA program, to identify any market power, jurisdictional, or compliance concerns.

3. This Initiative could provide more market transparency on what is “needed” for reliability.

As discussed above, the purpose of the RA program is for LSEs to procure what the CAISO will need to operate the grid reliably. If the current program is not doing that, we should fix the RA framework or ensure the CAISO can take on a more prominent role in backstop reliability procurement.

In the meantime, transparency on how “need” is determined could be helpful for all market participants. PG&E requests more information on the evaluation process used for determining what is “needed”. For instance:

- What assumptions do we make about non-RA resources’ availability when making a ‘needs’ assessment?
- What assumptions does the ISO use for operational flexibility? (3-hour ramp? What are the Import assumptions? What are the assumptions on economic bidding by renewables?)
- What are the criteria for determining whether the CAISO procures when there is an RA deficiency?
- Under what time period is the need evaluated? (Do we look one year full year from the data of the Risk of Retirement notification? Or, do we look only to the end of the calendar year?)

A functioning market requires that LSEs know what they are buying and why they are buying it. This should be transparent and would be helpful to all market participants in making optimal resource selections.

NCPA - NCPA appreciates the opportunity to comment on this initiative. NCPA understands that this initiative, together with FRAC-MOO 2 and the CPM risk of retirement initiatives, is intended to propose discrete and limited changes to address some of the difficulties assuring that resources providing necessary reliability services are adequately compensated for those services. While NCPA applauds CAISO’s recognition of the problems experienced by certain baseload resources in the RA markets, NCPA believes that CAISO stakeholders would be better served by a comprehensive effort to address the problem of insufficient revenue streams to retain needed resources than by tweaks to existing market rules that threaten to create more problems than they solve or by resource-intensive undertakings to address contingencies that may never arise. Within this framework, NCPA responds to the specific questions posed below.

The Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements Issue Paper, dated May 10, 2017, describes concerns raised by certain market participants that the risk-of-retirement CPM processes (and associated requirements) are too restrictive and/or problematic because resources do not know whether they will have an RA contract until October 31 of the current year. NCPA believes one of the core objectives of the original risk-of-retirement CPM design was to limit the likelihood of the mechanism being used, unless ultimately necessary to preserve reliability. This objective was partially accomplished by including various prerequisites and requirements that would help ensure the mechanism is only used in extreme circumstances, and not to incent resources to seek a risk-of-retirement CPM designation or to obtain information about the CAISO’s reliability needs that would allow

resources to exert market power in the regular RA contracting process. As such, if through this stakeholder process it is determined that the current risk-of-retirement process should be modified, the scope of this initiative should be limited, and should aim not to reduce the protections and limitations currently incorporated into the mechanism that would make it “easier” for resource to seek a designation without proving (in a comprehensive way) that all other options available to generate revenues have been exhausted. To the extent that the existing timelines are problematic, NCPA does not consider the use of RMR contracts in situations where timing prevents the use of the CPM process to be a bad result.

NRG - 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.

ORA - The CAISO tariff, in Section 43A.2.6, permits the CAISO to award payments through the CPM backstop procurement process to a resource that declares an intention to retire, if the CAISO determines that the resource is needed for grid reliability. Proposed enhancements to the CPM process would address issues faced by resource owners in filing for the CPM Risk-of-Retirement (ROR) designation. The major concern is the current requirement that resources cannot file for CPM ROR designation until after the October 31 resource adequacy (RA) annual filing deadline. After a CPM ROR filing, the CAISO must review the documentation supporting the requested ROR designation and perform a study to determine if the resource would be needed to meet reliability criteria. According to the resource owners, the CAISO’s final determination of eligibility for CPM payments occurs too late in the calendar year to provide reasonable time for resources to complete the steps needed to retire, including providing notice to employees, capital outlay and resource planning.

To reduce the risk of retiring resources that are needed for reliability in a subsequent year, the CAISO proposes to modify the current process to allow for greater flexibility in filing for a CPM ROR designation. However, stakeholders expressed concerns during the CAISO’s May 18 and May 25 CPM ROR workshops that the proposed enhancements may not provide adequate solutions to significantly mitigate the resource retirement risk. Several stakeholders expressed a belief that the current Reliability-Must-Run (RMR) process may remain a better, less complicated solution.

To enhance the current CPM ROR process, the Issue Paper identifies multiple requirements for potential modification, including who can apply, the timing of filings, deadlines for filing, selecting from competing resources, acceptance of designation, and forward need determination. The stakeholder workshops, however, largely focused on two competing concerns: resource providers want to receive CPM designations earlier in the calendar year, while the load serving entities (LSEs), the California Public Utilities Commission’s (CPUC) Energy Division, ORA and ratepayer groups assert that this would result in negative impacts on bilateral contracting. Under the current process, resource owners must wait for CPM ROR designations until a month or

less prior to a new calendar year. The process of retiring a resource and its eventual closure requires extensive planning, and resource owners thus seek CAISO decisions earlier in the year. On the other hand, the LSEs, CPUC, and ratepayer groups note that the public process and disclosure of CPM payments during bilateral contracting period would harm the process. Owners of resources who have been granted CPM price guarantees, which often double bilateral contracting prices, would not be motivated to negotiate lower prices. Stakeholders from both sides agreed that this situation creates an impasse with no clear direction forward.

Discussions at the workshops considered moving the RA annual filing dates to earlier in the calendar year. While this change could address the major concern over CPM ROR filings, moving the RA filing deadlines would require multiple changes in process at the CAISO, CPUC, and the California Energy Commission. The RA annual schedule depends on the CEC demand forecasts, CAISO technical studies for local and flexible capacity, early load projections by LSEs, CEC verification of load forecasts and adjustments, determination of resource net qualifying capacity by the CPUC, annual RA decisions to modify and refine the RA process, CPUC assignment of LSE requirements and review by both the CAISO and CPUC of LSE filings. Such major changes to the RA program fall outside of the scope of the CPM ROR initiative process.

SCE - At the workshops, SCE stated that the concerns being discussed are part of larger issues with respect to resource retirements, state policy goals, and long-term fundamental changes to the electricity market. Because the workshop, and therefore this initiative, refined the scope to immediate changes to improve existing provisions, SCE's comments reflect the limited scope that has been defined.

SDG&E - SDG&E appreciate the discussions the CAISO have led throughout the workshops. The issue of providing adequate timing will never be truly resolved because every resource owner will elect to make certain business decisions differently with respect to their own business. The existing process does not provide the CAISO with such option as each request must be evaluated separate from one another in the order that comes into the CAISO. As such, SDG&E is supportive of enhancing the existing process so that the CAISO has better capability to choose the *right* resources that needs to remain online for reliability purposes.

Six Cities - In general, the Six Cities agree that the scope of this initiative should be narrow. Despite anecdotal information provided by representatives of resources during the working group meetings suggesting that generators may have considered using the CPM risk-of-retirement process but have perceived various procedural and timing barriers to doing so, it is far from clear that the problem the CAISO has identified is a significant one that affects a large segment of the market. As the CAISO reiterated during the two working group meetings, the CAISO has not previously exercised its authority under the CPM risk-of-retirement tariff provisions, and the situation involving the Calpine generators that recently resulted in Reliability-Must-Run ("RMR") designations for two resources does not seem reflective of a wider problem. At the same time, it is reasonable for the CAISO to ensure that its tariff provisions relating to resource use and retirement are well-designed to address the changing resource mix and shifts in demand patterns within California. While the Six Cities do not object to process and timing

changes in the CPM risk-of-retirement process, this stakeholder initiative should not be used as forum for broader actions, such as revising the current CPM soft-offer cap or general pricing provisions or converting the CPM process from a backstop procurement mechanism to a front-stop mechanism. The Six Cities also do not believe that changes in the timing of the RA year are appropriate based on the limited nature of the problem the CAISO is trying to solve here. Although the Six Cities concur with the narrow scoping for this initiative, the Six Cities do urge the CAISO to consider the issues in this initiative in conjunction with the Temporary Suspension of Resource Operations initiative. As discussed below, there may be opportunities for the CAISO to synchronize its analyses of resource retirement issues for CPM purposes with its evaluation of requests for temporary suspensions.

WPTF - WPTF appreciates the CAISO addressing the deficiencies with the current CPM ROR and focusing this initiative on small changes that could move forward quickly. WPTF also supports addressing the situation where multiple resources come in at the same time.

Identified Issues

Calpine - Calpine believes that the CAISO has properly scoped the issues that could be addressed as minor modifications. One issue however is not on the list – and that is the determination of price for a CPM designation, as discussed below.

CLECA - In its May 10, 2017 Issue Paper titled “Capacity Procurement Mechanism Risk of Retirement Process Enhancements,” the CAISO identified the following six issues:

- (1) Who/When Can Apply
- (2) Timing
- (3) Deadline
- (4) Selecting from Competing Resources
- (5) Decision to Accept
- (6) Forward Need Determination

CLECA notes that the above list does not include some of the most important issues that have arisen with regard to this initiative. They are:

- (1) A detailed explanation of how the analysis of need will be performed,
- (2) Consideration of cost and pricing,
- (3) Consistency and coordination with the CPUC’s RA program, and
- (4) Coordination and correspondence with other CAISO and regulatory initiatives such as the CAISO’s ongoing Flexible Resource Adequacy Criteria and Must Offer Obligation Phase-2 (FRACMOO-2) process, its recently announced initiative on Temporary Suspension of Resource Operations, the CPUC’s Integrated Resource Planning (IRP) proceeding, the Transmission Planning Process, and the California Energy Commission’s (CEC’s) recent joint hearing with the CPUC on the issue of Risk of Retirement. There are also other regulatory considerations such as the planned retirement of Once-Through Cooling (OTC) plants as well as the expected decision on the proposed retirement of PG&E’s Diablo Canyon Nuclear Power Plant. In addition, there are pending regional initiatives such as the proposed regionalization of

RA and the potential for meeting the State's flexible capacity needs through imports, particularly with hydropower.

As the CPUC's Energy Division (ED) pointed out during the stakeholder processes held on May 18 and May 25, 2017, the scenario that the CAISO has laid out for its Risk of Retirement CPM may result in "front stop", not backstop procurement, which is problematic. As several stakeholders pointed out, the solution might be the development of a multi-year RA program. But as several other parties countered, the acceleration of the CCA movement (as well as increasing energy efficiency and distributed generation) and the migration of load are resulting in a decline in some LSEs' electric demand, making multi-year procurement riskier. Stakeholders also suggested that there are other regulatory processes currently in the offing which need to be considered first.

As for the most important issue of need, during the workshop ED asked the CAISO to outline a scenario in which a resource was not needed in the first year but would be needed in the second year. The response was that there was no such scenario because the load was going down. When pressed further, the CAISO suggested that it might need an electric generation unit for a sub-area or for voltage support but provided no data or other evidence for that assertion.

Another key issue – price - was raised repeatedly during the workshop. Several participants pointed out that the current situation of oversupply of electric generation was resulting in negative prices. This is why many generators were considering retiring their units or mothballing them. In response, other participants wondered if the CAISO was attempting to generate revenues for the endangered plants it thinks it may need to retain.

CLECA is concerned about the possibility that resources might be acquired that are not actually needed, increasing costs for ratepayers unnecessarily. SCE pointed out that the State's goal is zero thermal resources, which contradicts the idea of keeping so many fossil resources online. CLECA agrees that it is not necessary to retain fossil resources that are not needed for flexibility. If the CAISO does need to retain some fossil resources for flexible capacity, it is important for the CAISO to develop a Durable Flexible Capacity Product expeditiously.

Other parties pointed out that the CAISO could perhaps expand its Transmission Planning Process and do the study of resource needs in that forum rather than doing a special study for each resource seeking a Risk of Retirement CPM. As mentioned above, CLECA believes that the CAISO needs to coordinate with several ongoing initiatives rather than working in isolation.

The IRP proceeding is expected to develop a preferred long-term resource plan for much of the retail load in California. In fact, the CAISO has cited the IRP as a justification for not developing its Durable Flexible Capacity product, which the stakeholders have been awaiting for quite some time. Yet, it appears that the CAISO is now bypassing the IRP and other regulatory processes through the development of this initiative, which will enable it to acquire fossil fuel capacity in the short to medium term.

In place of such an ad hoc and stopgap measure, a holistic approach is needed for electric procurement in the State. Such a high-level holistic approach would include a consideration of and coordination with other related activities in the State such as the FRAC-MOO process, the regionalization initiative, the need to make market and software changes so that imports can be procured for flexibility, the RA proceeding, the Transmission Planning Process, and the IRP, as mentioned above. Such a high-level approach would also consider one of the most important variables that could influence the electric generation needs in California, namely electrification of the transportation sector.

Which entity is capable of the above task is not clear. What is clear is that the CAISO seems to lack the analytical tools for performing such analyses, as evidenced by the fact that the CAISO has repeatedly stated that it does not possess the modeling capability necessary to analyze its flexible capacity needs in detail.

Such coordinated analyses and modeling are crucial in deciding which power plants should be contracted for capacity in California. The IRP proceeding may well be the correct place to look at medium-term needs of the electric grid, since the IRP is already designed to coordinate with various ongoing proceedings to consider the State's electric demand while optimizing its Green House Gas (GHG) goals with reliability, flexibility and ratepayer costs. The IRP was created specifically to ensure coordination between various initiatives at the CPUC and the CEC.

CPUC - Who/When Can Apply - The CAISO tariff allows only resources that are NOT under an RA contract to apply for a risk-of-retirement CPM. This limits the number of resources that are eligible. The CAISO has asked stakeholders whether this eligibility requirement should be removed so that resources currently under RA contract could apply if they believed they would not be under contract for the subsequent year. Broadening the application eligibility by allowing resources currently under RA contract to apply and/or moving up the application date by which they can apply will not provide any more certainty to generators regarding a retirement decision. ED staff believes that the more relevant question is not who and when they apply, but when CAISO conducts its analysis and provides this determination to generators, as discussed in the following section.

Timing - CAISO asserts that the current process may not provide sufficient time for generators to make retirement decision. One possible solution CAISO offers is to provide specific timelines for steps in the process (how long to complete a study). Another possible solution suggested by CAISO is to complete the study earlier in the year, upon request, before final RA showing are in and share these determinations with stakeholders before October 31st. If the CAISO makes a need determination prior to the year-ahead procurement process which concludes the end of October, then the risk-of-retirement CPM process, which is supposed to be a backstop mechanism, could front run the year-ahead procurement process. ED staff does not support this. From an implementation perspective, CPM procured prior to the year-ahead process would count towards RA requirements which would have the result of less front stop procurement being needed. This is the same way the RMR process currently works. RMR

identified resources (currently only the Oakland peakers), not picked up in the year-ahead procurement process, are counted towards local and system RAR in the year ahead filings.

Deadline - CAISO indicates that there are currently no deadlines for a resource to seek a risk-of-retirement CPM designation, which could result in serial designation requests where the first resource that sought a designation may not be needed. ED staff supports a deadline or application window so as to minimize the CAISO need determination analysis and to allow CAISO to assess all resources simultaneously.

Selecting from Competing Resources - CAISO indicates that currently there is no selection criteria in the tariff to choose among resources when multiple resources seek a risk-of-retirement CPM designation and not all resources are needed. ED staff agrees that a selection process would be helpful and is supportive of CAISO's suggestion to use the existing tariff language from section 43A.2.2 and 43A.2.3, which provides general cost minimizing criteria and tie breaker criteria.

Forward Need Determination - ED staff does not support a foreword need determination. A forward need determination cannot be made earlier in the year without front running the current annual RA procurement process.

DGC – DGC agrees with the identified issues, but believes that the “Forward Need Determination” should be meshed with the “deadline” issue where there is expected to be a significant quantity of MWs at risk of retiring within a general two-year window. As mentioned earlier, there is no clear path for re-contracting existing dispatchable resources that will be coming off of existing PPAs, and current regulatory processes are unlikely to be completed in time to avoid going without a contract committing their capacity to CAISO under the RA structure. Asset owners should have the ability to voluntarily self-identify what capacity will be at risk of retirement or mothballing if not contracted in time, with the CPM backstop method to be a means of CAISO assuring availability of those resources that are determined to be needed. Additionally, because the larger system is in a state of signification transition with increasing levels of intermittent generation coming online to provide RPS-eligible MWs (while the RA counting rules for such resources will be resulting in lower NQCs for those additions), while at the same time more BTM generation is occurring and retail rates for residential customers will be moving to TOU structures, it may be prudent for CAISO to anticipate a need to see more flexibility out of the existing fleet of gas resources—particularly if policies will be limiting the likelihood of any new gas resources in the future. Maintenance of some existing resources with important locational attributes will be critical to system reliability as the system adapts to a less carbon-intensive generating fleet.

NCPA - Who/When Can Apply - NCPA supports the current risk-of-retirement CPM requirement that only resources that are not under a RA contract can request a CPM risk-of-retirement designation. A resource with an expiring contract that has been told it will not be renewed might be allowed to request a designation earlier, but should not be given the results of CAISO studies before the RA procurement process is completed.

Timing - NCPA supports the current risk-of-retirement CPM process and timing. Risk-of-retirement designations should only be made if a clear and defined reliability need is identified by the CAISO through its study process. One of the key variables that CAISO requires to perform that analysis is what resources have been committed under RA contracts. Based on this requirement, and the need to have such information available at the time of the study, NCPA supports the timing of the current risk-of-retirement CPM tariff provisions.

Deadline - While NCPA recognizes the challenges described by the CAISO in its Issue Paper, considering that no risk-of-retirement CPM designations have been made to date, NCPA believes a first-come first-serve approach is still the most efficient and appropriate approach. NCPA does not believe the complexity that would be required to establish a “cluster request process” is necessary at this time in light of more pressing issues that both market participant and CAISO resources should be committed to (e.g., developing more robust and reliable revenue streams in the market).

Selecting from Competing Resources - Developing selection criteria to be used in the rare case where multiple resources are seeking a risk-of-retirement CPM designation congruently would be an appropriate item to consider within the scope of this initiative. In general, NCPA believes the key criterion should focus on ensuring the most cost effective and electrically effective resources are selected, since the underlying purpose of the risk-of-retirement CPM mechanism is to support reliability (but not at any cost).

Decision to Accept - NCPA agrees that a resource owner’s decision to accept a designation as CPM capacity should be voluntary. Notwithstanding NCPA’s support for a voluntary election, NCPA also believes that once a resource has announced that it is seeking a risk-of-retirement CPM designation, if through the evaluation process CAISO determines that the resource is not needed to maintain reliability, the resource should be obligated to retire, unless the resource can provide formal, documented evidence that it has acquired a new revenue source to support its ongoing cost of operations. This type of protection is necessary to ensure the rules do not incent resources to “play chicken” with the risk-of-retirement CPM designation process.

Forward Need Determination - NCPA could consider a mechanism to allow a resource to seek a potential opinion from the CAISO regarding a forward need determination that could assist a resource owner’s decision in seeking a risk-or-retirement designation, but the method used by the CAISO to perform such an analysis would have to be carefully designed to ensure the information provided to the resource does not provide the resource with an unfair competitive advantage, or encourage the resource to exercise any form of market power it may have. Also, to encourage a resource owner to only seek a designation in extreme circumstances, the CAISO should charge the resource owner a fee to perform the study, to both cover the cost of the study and to discourage resource owners from casually and unnecessarily requesting such studies. Moreover, there would have to be an explicit recognition that a final determination could not be made until the CAISO knows which resources have received RA contracts for the following year.

NRG - 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.¹ 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 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. 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.

SDG&E - SDG&E does not take position on the issue of the affidavit. SDG&E does believe that the Risk of Retirement process should be developed such that resources do not try to discover if they are needed prior to the procurement cycle. The seriousness of the affidavit should continue to play a role in the enhanced process.

WPTF - WPTF supports the identified issues and appreciates that the ISO has added evaluating relaxing the attestation language to the list. That said, we acknowledge that the CPM ROR process will not work for everyone and do not think the ISO has to completely ensure the process works for all resources, at all times. We believe issues that run into large road blocks due to affecting other policy (e.g. timing) do not necessarily need to be fully addressed. If the ISO simply made the process a little better- by relaxing the attestation, clarifying the term length, and implementing a deadline once or twice a year, WPTF believes the process would at least be workable and therefore a vast improvement over current policy. Additionally, WPTF believes that there is the opportunity for process improvements (detailed below) that will not need to be in tariff.

Potential Enhancements

Calpine - Who Can Apply? - The current tariff forces unnecessary brinksmanship. A unit that has an RA contract is barred from seeking RoR – or more precisely, bars the CAISO from designating a CPM resource – until they are no longer contracted. Calpine supports modifications to allow the CAISO to consider the retirement of resources that are currently under contract for future RoR.

Timing/Length of process - Calpine sees value in the "clustering" of RoR requests as an option to reduce workload and to provide information sooner to a unit considering retirement. However, a unit must retain the right to file for a termination of its PGA at any time, regardless of whether it has been reviewed as part of a cluster.

Selection Criteria - In an oversupplied local area, the most efficient way to award capacity is through a simultaneous bid-based process. Otherwise, the CAISO will be put in a position of using administrative, and likely non-transparent factors to pick winners and losers.

Term - The CAISO *must* clarify term. The current language can be interpreted to allow much more discretion than intended. Calpine agrees the term could be represented as the “remaining months of the targeted compliance year.”

Price - The current tariff requires that the Schedule F, cost-of-service be divided by 12, yielding a \$/kw-mo price. As discussed in the workshop, this calculation is sufficient, presuming that there is no “gap” between the expiration of contracts and the designation by the CASIO. If the administrative process, however, requires that a unit remain available while the determination is being finalized, either those months should be compensated, or the denominator in the price calculation should be adjusted to represent the smaller number of months covered by the designation.

Attestation - Calpine agrees that the attestation, if required, should be modified to allow for reasonable consideration of future conditions such as, but not limited to the emergence of RA, or bilateral contracts or Significant Events.

DGC – DGC supports the ability of a resource to seek risk-of-retirement CMP status if the owner is anticipating that no follow-on RA contract will be secured. See prior comments about no likely path for existing resource re-contracting out of the CPUC LTPP/IRP before a significant portion of capacity will be off contract.

The timeline must be fixed so that assets without RA commitments are not required to maintain availability when they do not have a RA MOO. If the CAISO markets are not sufficiently compensatory to cover an assets costs to maintain availability, then there must be a relaxation of the obligation to remain available without forcing PGA termination where an existing asset may be seeking a subsequent RA contract with related MOOs, or undertake other actions at the site within a reasonable time period. Arguably, assets without RA contracts are not receiving the compensation contemplated by GO 167 OS 24. Moreover, it is not apparent that a non-utility asset owner facing a change to long-term status is required to secure CPUC approval prior to the change in status. To avoid these issues in the absence of a regularized process to recontract with existing dispatchable capacity resources, there should be a forward application mechanism in cases where the end of the contract term is imminent.

The term of a CMP contract should be the balance of the RA contracting year, presuming that there is a process in place for existing capacity resources to compete for a re-contracting opportunity, preferably under a multi-year term contract that includes RA, or at minimum, another RA compliance year.

On the attestation issue, DGC would recommend that the attestation focus on suspending resource availability (i.e., mothballing), rather than full decommissioning. Rather than requiring full retirement and decommissioning, the test should simply turn on the expected non-availability for the current RA compliance year. This may provide the type of flexibility around potential asset sales or other changes at the existing site, such as collocation of other technologies desirable to the system as it decarbonizes and sees major shifts in resource utilization.

NCPA - Who Can Apply? - The risk-of-retirement CPM designation mechanism should only be used in very limited and extreme situations, and has so far not been invoked. Based on the speculative nature of this situation, NCPA supports retention of the existing risk-of-retirement CPM tariff provisions.

Timing/Length of Process - The RA process has so far proven to be successful, and is well established. NCPA would strongly object to any proposed modifications to the RA process/timelines/deadlines, to accommodate changes to the risk-of-retirement CPM designation process/timeline that would upset the carefully constructed balance between the interests of generation owners and ratepayers. The primary reason market participants are not doing long-term contracting for RA resources is because the CAISO and CPUC are constantly changing the rules; therefore, there is far too much regulatory risk to contract long term. Rule changes here will further exacerbate that concern. The rules should only be modified if there is a clear and defined benefit to be gained. There have been no risk-of-retirement CPM designations to date, so adjusting a well-developed and functioning RA procurement process to accommodate the very limited application of risk-of-retirement would not be appropriate, and any consideration of such is a clear “tail wagging the dog” situation.

SCE – Timing - SCE does not currently see any issues with allowing resources to apply for CPM ROR if they are still under contract but do not expect to have an RA contract in a subsequent year. However, a resource should not be informed of any ROR study results until after all aspects of the RA process is completed (including the annual showing and the completion of all deficiency processes). If a resource can determine its ROR results before the RA process is complete, the resource could be given an unfair advantage in terms of price discovery and market power.

Window - SCE believes developing an application window has potential. Allowing multiple resources to be considered together could reduce the risk of an inefficient outcome due to different resources applying in a specific order. Details around this enhancement will need to be carefully considered. For example, stakeholders will need to determine how to handle resources that miss an application window. Will that resource be subject to an independent study or will the resource be required to wait until the next window?

Selection Criteria - SCE supports using existing CPM selection criteria to guide development of selection criteria for this process. Most notably, the current process was developed assuming that there would likely be individual retirements during any given period. As a result, the pricing mechanism of bidding subject to the soft offer cap was replaced with an administrative price of the soft offer cap. Given that it now appears that there could be multiple requests during a given period, SCE suggests that resources be allowed to bid, similar to the other CPM uses, subject to the soft offer cap. The CAISO could then choose based upon price and other reliability criteria such as grid constraints now and predicted in the future.

Attestation - Regarding the attestation, this initiative should consider allowing any resource that applies for a CPM ROR to withdraw their application as long as they have not been informed of their CPM ROR study results. Between the time a resource applies for CPM ROR and when

results are available, market conditions may change to the point where the CPM ROR is no longer needed. However, the decision to retire should be fixed once the study results are known.

Six Cities - The Six Cities understand that the core problem the CAISO is trying to resolve relates to the limitation in the current CPM risk-of-retirement tariff provisions that prevents the CAISO from undertaking an assessment of future need for a particular resource while the resource is under an RA contract. To resolve this problem, the Six Cities suggest that the CAISO remove this limitation and establish two windows each year, each with a duration of one month, during which resources that are considering retirement could apply for a CPM risk-of-retirement designation. Resources eligible to request a risk-of-retirement designation would include both resources that are not under RA contracts and resources that are under a current RA contract that will expire at or before the end of the current calendar year. The CAISO would not change the nature of its assessment, but would make the assessment results available sooner so that a resource could make an earlier determination whether to retire. This approach seems generally aligned with the suggestions included as Enhancements 1, 3, and 4 on slides 19-20 of the CAISO's May 25th presentation.

As far as Enhancement 2, the Six Cities believe that participants in this initiative would benefit from more information from the CAISO concerning the type of assessment it performs currently, what information is used, how long the assessment realistically takes, and whether the assessment could be moved earlier in the year and performed twice per year as suggested above.

With respect to Enhancement 5, it seems reasonable to use existing selection criteria to address a situation involving multiple resources proposing retirement at the same time. This initiative should consider if further changes to the criteria may be needed. Similarly, the Six Cities propose that the CAISO consider whether there are any unique issues presented by affiliated resources seeking risk-of-retirement CPM designations on an overlapping basis that should be addressed through selection criteria.

Enhancement 6, relating to the timing of any potential CPM designation resulting from the risk-of-retirement analysis, would also likely benefit from further exploration to ensure that if a resource is provided with a CPM designation in lieu of retirement, it receives a designation that is of a sufficient duration to ensure that it will be available through the period in which the CAISO has determined it is needed.

The Six Cities do not oppose revising the current attestation requirements to encompass certain contingency situations as suggested in Enhancements 7 and 8. The Six Cities are concerned, however, that the attestation remain reflective of a resource's good faith commitment to retire unless the identified contingencies occur. While they do not oppose adding flexibility in the attestation requirement, the Six Cities do not support removing the attestation altogether.

Other Comments

CLECA - The Risk of Retirement CPM initiative appears at an impasse. In support of the initiative, the CAISO provided only one example of two Calpine units which needed a Risk of Retirement CPM designation. Due to the absence of an appropriate process for designation of resources currently under an RA contract, the CAISO resorted to using the Reliability Must Run (RMR) designation for the units. We do not know how many other resources may seek risk of retirement treatment in the future or, in the absence of a clear methodology, how the CAISO will decide whether such resources are needed. CLECA believes that the CAISO should exhaust the regulatory avenues available to it, such as the RA proceeding and the IRP, to acquire the resources it needs for operating the grid reliably before bypassing these regulatory processes and acquiring capacity on, as ED labeled it, “a front stop” basis. In fact, CLECA wonders if, by procuring capacity two years in advance through this initiative, the CAISO is by default developing its own multi-year RA process without identifying it as such. We recommend that the CAISO develop its analytical and modeling capabilities, through consultants if necessary, in order to provide stakeholders with a fact-based rationale for procurement of fossil resources outside the RA process.

DGC – DGC believes that a combination of creating a regularized process for re-contracting existing dispatchable gas resources in conjunction with a risk-of-retirement CPM and the Temporary Suspension of Resource Operations mechanism to suspend availability pending the next contracting opportunity will be an important structural change. Serious market condition changes have happened since RA and the MOO were first developed, and now the system is faced with a need to provide a rational mechanism for capacity retirements that relies on competition across existing resources to maintain a prudent level of dispatchable capacity for reliability purposes.

ORA - The CAISO views the CPM ROR process as a bridge that provides payments to a resource during a year when the resource is without an RA contract, in order to prevent retirement of a resource that will be needed the following year. However, the CAISO did not present convincing evidence that resources needed just one year forward would retire for economic reasons. Furthermore, no studies provide clear evidence regarding the extent of the problem nor estimate the quantity of “resources that are needed for reliability but are at risk of early, unplanned retirement.”

Workshop discussions included calls for a more holistic view of the retirement risk issue and broad changes that may address the issue in more meaningful ways than enhancements to the CPM ROR process. Should a risk of retirement present a problem in the next couple years, the proposed CPM ROR process changes may not provide significant improvement. The risk of early retirement was discussed earlier this year in a joint workshop with the CPUC, CAISO and CEC. These three organizations should begin to coordinate to analyze and quantify the risks and craft the best solutions.

SDG&E - SDG&E understands that the certain generator owners wish for earlier certainty than the current process allows. This would provide the company with time and the ability to plan and reallocate their resources after the generator actually retires. This is a reasonable request. However, the timing of a response by the CAISO must not front run the existing capacity market construct.

Based on the existing processes for CPM ROR, RMR and normal retirement, each time a resource submits a request, the CAISO must perform a unique study specific for that resource. This inefficient process does not provide the CAISO with any options to select the most necessary resources for reliability. Instead, the CAISO may let a much needed resource retire and keep a lesser needed resource from retirement just because the latter resource requested a day, a minute or a second later.

SDG&E makes the following recommendations for the CAISO's initial proposal.

1. Consolidate the CPM ROR, RMR and normal retirement process into one single process for designation
2. Establish a deadline in which the CAISO will consider requests for the following year
3. Allow resources under RA contract to request retirement if such resources are uncontracted for the entirety of the following year
4. Resources will be placed on temporary suspension if not currently under RA commitment starting 90 days from the day of request and lasting until when the resource is allowed to retire

Six Cities - Six Cities urge the CAISO to consider how the issues in this initiative are related to those in the initiative for Temporary Suspension of Resource Operations. There appear to be opportunities to link the procedures discussed in these initiatives, such as by using the same submittal window for the CPM risk-of-retirement analysis and temporary suspensions. If the CAISO adopts the submittal window approach for both initiatives, resources that are applying for either of these options should be required to clearly specify the option for which the resource is applying. The CAISO should consider whether there could be situations when a resource is not deemed needed for purposes of the CPM risk-of-retirement analysis but could nonetheless be refused a temporary suspension, and how such situations would be addressed. Additionally, the Six Cities believe that stakeholders should consider whether revising the CPM risk-of-retirement process as described above would provide opportunities for gaming, the exercise of market power, or inappropriate price discovery that resources could then use as leverage in future contract negotiations. Because the Six Cities support retention of the affidavit requirement in a modified form, it is the Six Cities' expectation that resources would not use the CPM process for gaming or to obtain undue advantage in the RA process. Similarly, using request windows that are pre-established may also have the effect of minimizing gaming opportunities. What other measures will the CAISO employ to ensure that the CPM risk-of-retirement process is used for its intended purpose?

WPTF - WPTF understands that the certain generator owners would prefer for the timing to be changed so that they could apply for ROR CPM prior to the annual RA auction. This would provide the owners with additional time and the ability to potentially lower costs more quickly.

Based on the existing processes for CPM ROR, RMR and normal retirement, each time a resource submits a request, the CAISO must perform a unique study specific for that resource. This does not provide the CAISO with any options to select the most necessary resources for reliability. WPTF supports the following recommendations made by Nuo Tang, SDG&E, at the May 25th working group meeting.

1. Consolidate the CPM ROR and normal retirement process into one single process for designation.
2. Establish a deadline in which the CAISO will consider requests for the following year – this deadline could be once or twice per year
3. Allow resources under RA contract to request retirement
4. Resources may be placed on temporary suspension if not under RA commitment starting 90 days from the day of request and lasting until when the resource is allowed to retire
5. Because the resource is placed under temporary suspension, any additional studies for the intra-year will be study the reliability impact through the temporary suspension of resource operation process for the need for the remainder of the year
6. The CAISO will study all resource requests in a cluster at the same time for the following 2 years and have better capability to select the resources that will be allowed to retire
7. If a resource misses the deadline, then it may be placed under temporary suspension until the following year's study process

This process would essentially remove the normal retirement process. This is necessary since the CAISO studies the reliability impact for normal retirements even if the resource does not seek for CPM ROR.