

Comments on the Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements – Draft Final Proposal

Department of Market Monitoring

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The California ISO Department of Market Monitoring (DMM) appreciates the opportunity to comment on the ISO's Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements Draft Final Proposal (Proposal).¹

The Proposal allows resources to know earlier in the year whether they will receive a risk-of-retirement CPM. The proposed earlier designations makes the risk-of-retirement CPM a more viable option for resources considering retirement. This is an improvement over the current risk-of-retirement CPM process which occurs too late in the year to be of practical use.

Several aspects of the Proposal reduce the likelihood that a resource will submit inefficient retirement requests.² The ISO proposes to compensate a resource who receives a risk-of-retirement CPM at the resource's cost-of-service. The cost-of-service compensation reduces the potential for rent seeking compared to compensation at the CPM soft offer cap. The resource owner must also attest in writing that they intend to retire the unit. This increases the difficulty of, and rewards from, fishing for CPM payments in the proposed risk-of-retirement process.

The Proposal also allows a resource to not retire if it receives an RA contract in the bi-lateral. This flexibility allows resources that were uneconomic to stay in service when conditions change, mitigating the potential for an inefficient retirement.

While the proposal does create an April application window before than annual RA process is complete, a resource currently can receive an RMR contract if it applies for retirement at any time during the year. Therefore, creating an option to apply for a risk-of-retirement CPM does not create a fundamentally new way for a resource to "front run" RA process. Further, a resource receiving a risk-of-retirement CPM is compensated based on its cost-of-service rather than the CPM soft cap, which also reduces concern that this option will undermine the current RA process and market. Concerns about the CPMs occurring before the RA process highlight the need to change the RA process timeline so that RA contracting is completed further in advance of operations.

¹ *Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements – Draft Final Proposal*, September 13, 2017: <http://www.caiso.com/Documents/DraftFinalProposal-CapacityProcurementMechanismRisk-of-RetirementProcessEnhancements.pdf>.

² Requests to retire resources that would actually be economic to keep in operation.