California ISO

Stakeholder Comments Template

Capacity Procurement Mechanism Soft Offer Cap

This template has been created for submission of stakeholder comments on Capacity Procurement Mechanism (CPM) Soft Offer Cap that was published on July 24, 2019*.* The straw proposal, stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at: http://www.caiso.com/informed/Pages/StakeholderProcesses/CapacityProcurementMechanismSoft-OfferCap.aspx

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on August 20, 2019.

Submitted by	Organization	Date Submitted
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Please provide your organization's comments on the following issues and questions.

1. **Maintain the CPM soft offer cap**

   Please provide your organization's feedback on this topic as described in section 5.1 of the straw proposal. Please explain your rationale and include examples if applicable.

   Please indicate any analysis and data review that your organization believes would be helpful to review on this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

   Middle River Power ("MRP") appreciates opportunity to provide comments on the CPM soft offer cap straw proposal. MRP is supportive of the current approach outlined by the CAISO at this time. As previously mentioned, since the soft-offer cap was set several years ago there have been significant changes in the RA market and the California Public Utility Commission (CPUC) RA program as well as with fundamental supply and demand. These changes include increased scarcity in the RA market, a multi-year procurement requirement for local resources, and a push to create a central procurement entity ("CPE"). MRP believes that the current proposal to keep the existing soft offer cap at $75.67/kw-year permits an appropriate short term bid threshold to assure a roboust multi-year forward RA process is maintained while preserving the most cost effective and reliable units. This proposal works for the short-term but should be reevalauated no later than 2021.

MRP strongly believes the underlying rationale and potentially the methodology for developing the soft offer cap should be examined and modified to reflect appropriate costs to sustain existing projects and / or incentivize new technologies without discriminating against existing assets that are also critical to system reliablity. MRP encourages the CAISO to reconsider the soft offer cap formulation within the next few years as changes to existing programs and policies are solidified. As recommended in the past, the CAISO should consider an independent study which evaluates the full cost of the marginal system capacity resources in California. It is clear new capacity resources will be required to maintain system reliability and the true cost of new entry should be considered when developing the soft offer cap. The results of this analysis will be used to develop a soft offer cap and capacity market to incent development while appropriately managing system needs.

In a fully functional short- and long-term capacity market, new build battery energy storage costs in the system would act as a floor for the soft offer cap. Battery storage projects are proposed to balance the system. The cost of capacity analysis should consider a detailed cost analysis for the full cost development of various energy storage options (4, 6, and 10-hour units at a minimum should be evaluated) as the next marginal unit to enter the market. Energy storage is the likely new market entrant to meet RA requirements as ELCC values continue to decrease for solar and wind resources. The findings of the CEC Staff Report, “Estimated Cost of New Utility-Scale Generation in California: The CAISO should factor in the full capital and on-going operating costs for these units as a floor for the soft offer cap, in order to fully account for the cost to develop, finance, and deploy the capacity needed to maintain reliability of the system.

Lastly, MRP believes a key piece of analysis is missing to sustain a long term multi-year forward RA program. The CAISO relationship between bilateral prices and the backstop market is unclear in the current proposal, but is necessary to consider within any rational backstop program. It is unclear to MRP whether the current soft offer cap is sufficiently high to maintain the current structure of primary procurement through multi-year bilateral, and potentially a CPE rather than through the CAISO’s CPM. Such a price construct would incent load serving entities to use the backstop mechanism rather than procure capacity resources in advance through the bilateral RA market, resulting in the CAISO backstop procurement mechanism acting as the primary capacity market in the state. MRP suggests the CAISO working with the CPUC to evaluate contract prices going forward.

2. **Changes to 12-month CPM designations**

   Please provide your organization's feedback on this topic as described in 5.3 of the straw proposal. Please explain your rationale and include examples if applicable.

   Please indicate any analysis and data review that your organization believes would be helpful to review on this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

   MRP supports the cost of service proposal for 12 month CPM designations as outlined in the straw proposal while to continuing to push for a multi-year bilateral RA market. MRP understands the necessity to allow for appropriate backstop for the correct reasons but is concerns about the heightened concern to address market power.

Additional comments

Please offer any other feedback your organization would like to provide on the straw proposal for the CPM Soft Offer Cap initiative.

MRP appreciated the 12 month CPM designation process highlighted in Section 5.3 of the straw proposal. However, MRP would like the CAISO to reconsider in it's next draft MRP's suggestion to clarify that the monthly soft offer bid cap should be based on an annual value for periods throughout the year when a 12 month offer is not provided.

RA capacity requirements vary throughout the year, which causes pricing to vary in order to assure a facility remains viable if only providing RA for a specific period. To reiterate our position in an example, if the CAISO determines a CPM designation for a resource is required for Q3 in a particular area, the assessment of the bid should be compared to the annual cap not the monthly price cap, in order to determine if the bid is acceptable. The nature of the operations and maintenance of a large generating facility necessitates a given level of regular expenditure throughout the year to ensure reliability and availability of a resource during a given period. Therefore, the annual revenue needs of a facility is required to be met, regardless of whether the procurement period is the full year or a portion of the year. MRP believes that concerns related to "over-payment" could be accommodated through attestations of contracts and the transparency of the CPM process, which first allows LSEs and potential a CPE to 'cure' any deficiencies prior to the CAISO designating a resource under CPM.