

**Comments of Powerex Corp. on
Capacity Procurement Mechanism Soft Offer Cap
Straw Proposal**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments respecting the CAISO’s July 24, 2019 Capacity Procurement Mechanism (“CPM”) Soft Offer Cap Straw Proposal (“Straw Proposal”). In the Straw Proposal, CAISO proposes to modify the existing CPM structure to incorporate a three pivotal supplier test for 12-month CPM designations and to move forward with changes developed in a separate stakeholder proceeding respecting bids above the CPM soft offer cap. CAISO explains that it does not plan to make any changes to the level of the offer cap or the basis on which the offer cap is calculated as part of this proceeding.

Powerex does not have any comments on the merits of the limited modifications that CAISO is proposing to move forward with at this time. In practice, the CPM has been used primarily to address shortfalls in local Resource Adequacy needs, with limited exceptions, and Powerex is not taking any position respecting the merits of the CPM framework in meeting local needs. Powerex also does not oppose the CAISO maintaining the use of the existing annual soft offer cap at this time.

However, as explained in its earlier comments, Powerex believes that the CPM framework—including the existing soft offer cap structure—is out of step with the type of framework needed to ensure that CAISO is able to obtain the backstop capacity necessary to meet System Resource Adequacy needs in the face of tighter supply conditions throughout the west.

In particular, attempting to procure backstop capacity in single month increments, less than 45 days in advance of the delivery month, at a price equal to (or less than) 1/12 of the annualized cost of new entry is unlikely to prove effective in allowing CAISO to procure the backstop capacity that it needs to meet system needs. Ultimately, ensuring that CAISO is able to compete to obtain the capacity necessary to efficiently and cost-effectively meet its long-term reliability needs will require CAISO to move towards a Resource Adequacy and CPM framework that better aligns with the products and timelines under which capacity is committed on a forward basis outside of California—where forward transactions are increasingly for seasonal and annual products over a long-term commitment period (e.g., one to five years). In particular, Powerex believes that achieving this objective will require CAISO to:

- Implement a System Resource Adequacy program that requires capacity to be procured entirely on a year-ahead basis, with requirements set on a seasonal basis (*i.e.*, summer and winter) rather than a monthly basis; and
- Adopt a CPM framework that allows CAISO to procure capacity as a six-month product for summer (May-October) or winter (November-April) on a year-ahead basis, with a soft offer cap reflecting six months of service.

Powerex appreciates the significant effort that CAISO has made to work with the California Public Utilities Commission (“CPUC”) and stakeholders to explore and pursue changes to the System Resource Adequacy framework, and encourages the CAISO to continue to move forward with these efforts. As CAISO does so, Powerex believes that it is important to recognize that month-ahead CPM procurement can no longer be relied upon to act as a meaningful “backstop” and to pursue changes to CPM timelines, products, and pricing as necessary to ensure that CAISO is able to effectively compete for and procure the capacity necessary to meet system needs.