Cogentrix

June 11, 2018

Dear California Customer Choice Team,

The paper "California Customer Choice; An evaluation of Regulatory Framework Options for an Evolving Electricity Market (Draft Green Book)" prepared by the California Public Utilities Commission (CPUC) staff evaluates the importance of and the risks to the reliability, affordability, and decarbonization within the California electric grid. Cogentrix Energy Power Management, LLC (Cogentrix) appreciates the opportunity to comment on the Draft Green Book.

First and foremost, Cogentrix commends the Commission for acknowledging the significant challenges facing the California electricity system and attempting to addressing those issues through historical review, comparative research, and open engagement. As the complexities of the California electricity system increase, ensuring reliability, affordability, and decarbonization requires proactive policy making. Second, as an independent power producer (IPP) providing Resource Adequacy (RA) to multiple Load Serving Entities (LSEs), Cogentrix has a unique perspective from which to consider the road map set out in the Draft Green Book.

Respectfully submitted,

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I. Comments of Cogentrix

1) Cogentrix concurs that the reliability threat is real, but maintains that a crisis is avoidable

The Draft Green Book states that "*without a coherent and comprehensive plan, the current policies in place may drift California to an unintended outcome and breakdown in services like the Energy Crisis*."[1] While we consider this scenario to be completely avoidable, we unfortunately concur. The reliability risk of not having a coherent and comprehensive plan to address changing market conditions and increasing complexities is further exacerbated by other system-wide impacts including natural gas output constraints at Aliso Canyon, increasingly destructive wildfires, increasing penetration of intermittent resources, and below-normal hydro generation projected for the summer. At the same time, current market rules systematically cause artificially low prices in the RA market for existing flexible generation units, thereby threatening the economic viability of those essential resources and resulting in the need for out-of-market backstops such as Reliability Must Run (RMR) contracts and Capacity Procurement Mechanisms (CPM). Other likely outcomes of continued artificially low RA prices include additional unplanned retirements as well as extension of once-through-cooling plants.

Not withstanding the above, Cogentrix believes that the risk of another energy crisis can be mitigated through meaningful RA reform in the context of ongoing proceedings: FRACMOO 2, Day Ahead Enhancements, R.17-09-020, and, more recently, the RMR/CPM Initiative. Principally, adjustments to system and flexible RA methodologies and multi-year RA obligations for all LSEs would incentivize those generators, which are needed for reliability, to continue

[1] California Customer Choice: An Evaluation of Regulatory Framework Options for an Evolving Electricity Market (Draft Green Book)," pg.5

operating and maintaining their units. These are changes that the Commission can implement immediately within the scope of its jurisdiction, and Cogentrix urges the Commission to take action to that end.

2) Affordability is essential to California rate payers and the state economy as a whole

In a state with some of the highest electricity rates in the country, affordability of electricity is critical to the continued prosperity of the state and the well-being of all rate payers. In order to ensure affordability, it is important that the Commission identify the most cost-effective approach to securing system reliability. The construct of the California wholesale electric markets is specifically designed to dispatch the most cost-effective resources. However, recent outside intrusions into the market have caused distortions in the dispatch prices and artificially reduced the revenue that is available and necessary to existing resources. Often the most cost-effective generation is the generation that is already operational and, if so, this generation should be preserved for its important contribution to reliability and affordability (provided it meets flexibility requirements). Otherwise, unplanned retirements of existing flexible generation resulting from artificially low RA prices, will require more costly solutions like backstop procurement and adversely impact the affordability of electricity in the state.

The significant costs of state actions to preserve baseload capacity ignores the operational benefits of more flexible capacity that can better respond to the increasing penetration of renewable and clean resources that challenge the grid operations because of their more intermittent nature. The unintended, but obvious, consequences of administrative subsidies for certain resources - RMR and CPM – are to support certain capacity at the expense of the

excluded capacity. Unfortunately, not all resources have the operational flexibility to contribute to the state's clean energy and carbon reduction goals. The Commission should work within the existing proceedings to develop a framework to send timely and concrete signals to maintain specific capacity that contributes to the flexibility and reliability of California's bulk power system.

3) Flexible RA is the key to meeting California's renewable energy and carbon reduction goals

Cogentrix supports California's ambitious RPS and carbon standards, which are already in effect and the compliance with which is already accounted for with respect to existing generation. The program's success is evidenced by the fact that California is on track to meet its goal of 50% renewables by 2030 a full 10 years earlier in 2020[2]. That said, market instability resulting in more RMRs and OTC extensions is counter-productive to the state's decarbonization goals. Progress on flexibility and RA reforms is a path to mitigate these risks.

Respectfully,

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[2] CPUC 2017 RPS Annual Report