



California Independent  
System Operator Corporation

April 18, 2011

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, D.C. 20426

**Re: California Independent System Operator Corporation  
Docket No. ER11-2256-000  
Compliance Filing**

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Part 35 of the regulations of the Federal Energy Regulatory Commission (FERC or Commission), 18 C.F.R. Part 35, and consistent with Order No. 714 regarding electronic filing of tariff submittals, the California Independent System Operator Corporation (ISO) hereby electronically submits this filing in compliance with the Order On Tariff Revisions issued by the Commission on March 17, 2011.<sup>1</sup>

## **I. Background**

On December 1, 2011, the ISO filed proposed modifications to the ISO Tariff to implement the Capacity Procurement Mechanism (CPM) to replace the expiring Interim Capacity Procurement Mechanism (ICPM) as the backstop mechanism that authorizes the ISO to procure capacity to address a deficiency or supplement resource adequacy (RA) procurement by Load Serving Entities (LSEs) as needed in order to comply with applicable reliability criteria and maintain reliability of the grid. In the March 17 Order, the Commission accepted and suspended the ISO's proposed tariff amendments concerning CPM compensation and exceptional dispatch mitigation, and accepted the remainder of the CPM proposal subject to the additional tariff modifications discussed below.<sup>2</sup> The Commission directed the ISO to submit the required tariff modifications within 30 days of the date of the order.

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<sup>1</sup> *California Indep. Sys. Operator Corp.*, 134 FERC ¶ 61,211 (2011)(March 17 Order).

<sup>2</sup> Capitalized terms not otherwise defined herein have the same meaning as set forth in the ISO Tariff, Appendix A, Definitions.

## **II. Summary of Tariff Modifications**

### **A. Sections 34.9 and 43.4**

In certain instances, two or more resources may be able to resolve the need for additional capacity leading to a CPM designation or exceptional dispatch. At the time of the ISO's CPM filing, ISO Tariff Section 43.4 (Selection Of Eligible Capacity Under The ICPM) listed the criteria used by the ISO to select the specific resource to receive an ICPM designation from among Eligible Capacity.<sup>3</sup> Those criteria were: 1) the effectiveness of the Eligible Capacity at meeting the underlying need for the type of designation to be issued, 2) the capacity costs of the Eligible Capacity, and 3) the quantity of the resource's available Eligible Capacity relative to the remaining amount of capacity needed. Section 43.4 also provided that, for an ICPM designation due to a failure to show sufficient RA resources in an annual or monthly RA Plan, the ISO would additionally consider the effectiveness of the Eligible Capacity in meeting local and/or zonal constraints or other ISO system needs.

The ISO's CPM filing in the instant proceeding added two criteria for the ISO to use in selecting the resource to receive a CPM designation once it determines that issuance of the designation is necessary. The new selection criteria are: 1) the operating characteristics of the resources, such as dispatchability, ramp rate, and load-following capability, and 2) whether the resource is subject to restrictions as a use-limited resource. The CPM filing also modified Section 34.9 (Exceptional Dispatch) in order to incorporate the selection criteria for CPM designations into the selection of capacity to receive an exceptional dispatch. Because all ICPM/CPM designations since the start of the new market structure in April 2009 have been triggered by exceptional dispatches, the ISO aligned the criteria for these measures to ensure that the capacity designated for a CPM or exceptional dispatch is selected in a consistent manner.

The March 17 Order conditionally accepted the ISO's proposed selection criteria for CPM designations and exceptional dispatches. The Commission agreed with the ISO that the selection criteria should be consistent for both mechanisms and that it will protect ratepayers from incurring additional costs if a resource under a CPM is not available to be dispatched when needed and the ISO is not forced to procure more backstop capacity. The Commission noted, however, that the ISO did not explain how the criteria will be balanced and applied when selecting a resource. The Commission therefore directed the ISO to submit a compliance filing that provides details about the selection process and how the selection criteria will be applied.<sup>4</sup>

In response to the directive in the March 17 Order, the ISO's compliance filing

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<sup>3</sup> ISO Tariff, Appendix A, Definitions, defines Eligible Capacity as "Capacity of Generating Units, System Units, System Resources, or Participating Load that is not already under a contract to be a Resource Adequacy Resource, is not under an RMR Contract or is not currently designated as ICPM Capacity that effectively resolves a procurement shortfall or reliability concern and thus is eligible to be designated under the ICPM in accordance with Section 43.1."

<sup>4</sup> March 17 Order, P. 168.

proposes to modify Section 43.4 to provide that, in applying the selection criteria, the goal of the ISO is to designate lower cost resources that will be effective in meeting the reliability needs underlying CPM designations. Similar language is proposed in Section 34.9 regarding exceptional dispatches. In addition, the proposed modifications to both tariff sections expand the explanation of how the criteria will be applied in order to identify the best suited resource to receive the CPM designation or exceptional dispatch under the then-existing circumstances. As discussed below, the ISO applies the selection criteria in the same order as set forth in the tariff. The ISO is not proposing to change that prioritization, but proposes to revise Sections 34.9. and 43.4 to clarify that the ISO will apply the selection criteria in the order listed. The following discussion of the section process applies to both tariff sections, except that Section 34.9 does not contain the sixth criterion.

The first criterion recognizes the obvious – only those resources that can effectively mitigate the specific capacity shortfall or address the particular reliability problem should receive a CPM designation or exceptional dispatch. The ISO identifies the effective Eligible Capacity by considering the effectiveness of the resources at meeting the designation criteria for the type of backstop procurement to be undertaken and at resolving the underlying reliability need. A deficiency in local capacity area resources or a significant event that impacts a particular local area may have only a limited pool of potential suppliers to address the problem. On the other hand, for a system-wide shortage, many resources may satisfy the criterion. The ISO proposes to revise Sections 34.9 and 43.4 to include these considerations used to identify the effective Eligible Capacity.

Under the second criterion, the ISO considers the cost of the Eligible Capacity. For example, if two resources are equally effective in addressing the shortfall, the ISO will endeavor to designate a unit at the \$55/kW–year capacity price before selecting a unit with a unit-specific specified price above \$55/kW-year (which price must still be cost-justified by the resource in a filing with the Commission in accordance with Tariff Section 43.6.2). Similarly, the ISO will endeavor to designate a resource that has specified a capacity price before designating a resource that has not specified a capacity price (which will also need to make a cost justification filing with the Commission in accordance with Tariff Section 43.6.2.1). The proposed tariff revisions reflect this ranking of cost considerations.

The third criterion requires that the ISO consider the quantity of a resource's Eligible Capacity. Through this criterion, the ISO attempts to limit its purchases to the amount of capacity needed to resolve the shortfall. Thus, if two facilities are similarly effective and have identical capacity prices, the ISO will select the facility that has a PMin at or below the capacity that is needed before selecting a resource that has a PMin that would require over-procurement. The ISO's proposed changes add this clarification to Sections 34.9 and 43.4.

The fourth criterion is new and allows the ISO to take into account specific operating characteristics of a resource, such as dispatchability, ramp rate, and load-

following capability to the extent such factors are pertinent to the type of designation being issued and the associated reliability problem. This criterion enables the ISO to identify and select the optimal capacity for designation in instances where the operating characteristics of the resource are an important factor in responding to the reliability need. In applying this criterion, if two resources have equivalent effectiveness and cost, and PMin at or below the capacity need, the ISO will then look to the specific operating characteristics of the resources to determine whether, for the type of designation being issued, the capabilities of one unit would better address the problem than the other unit. For example, if the basis for a CPM designation is a system issue caused by insufficient RA resources in an LSE's annual or monthly RA Plan, the specific operating characteristics of the resources would not be pertinent to the solution, and application of this criterion would not narrow the pool of candidate resources. However, if there is a CPM significant event affecting a local area, the reliability problem could benefit from a resource with particular operating capabilities, in which case this criterion would apply to help identify the best suited resource to receive the designation or Exceptional Dispatch. The proposed tariff changes clarify that this criterion will be applied in instances where the operating characteristics of the resource are an important factor in resolving the reliability need.

The fifth criterion is new. It is similar to the fourth criterion in that it recognizes another resource-specific factor -- whether the availability of a resource is restricted due to use-limitations. Since the CPM designation requires that the resource be available to the ISO in a manner consistent with the must-offer obligations that apply to non-use-limited resources, this criterion allows the ISO to consider whether the resource is use-limited. Under this criterion, if two resources have equivalent effectiveness and cost, and have met the other selection criteria, the ISO will consider whether either resource is use-limited and whether that status may restrict its ability to be available to the ISO in the day-ahead and real-time markets throughout the period for which it is being procured. The proposed tariff changes include that consideration and incorporate the language directed by the Commission, discussed below, that, to the extent that use-limited resources are capable of performing the required service for the duration of the CPM designation, the ISO will not unduly discriminate in favor of non-use limited resources when applying this selection criterion.

The sixth criterion pertains only to CPM procurement to address a deficiency in meeting annual and monthly demand and reserve margin requirements. This criterion recognizes that in selecting between two resources that are equally effective and equally priced, a prudent system operator would designate the resource that provides the most overall benefit to the system, either by resolving other locational or zonal issues or constraints or providing additional system benefits.

If after applying these criteria, two or more resources that are eligible for designation equally satisfy these criteria, the ISO will utilize a random selection method to determine the designation between those resources.

In the event that multiple resources are eligible to accept the CPM designation or receive an exceptional dispatch, but not all are needed, the ISO will select resources based on their physical effectiveness in addressing the reliability need, price, PMin level, and to the extent pertinent, their specific operating characteristics and use-limited status. The ISO believes that this selection order and process enables the ISO to identify the best suited resource to receive the CPM designation or exceptional dispatch under the conditions existing at the time. Further, the proposed tariff changes described in this compliance filing reflect prudent practice and provide transparency to the selection process. The ISO will include additional details about the selection process in the Business Practice Manual for Reliability Requirements. The ISO respectfully requests that the Commission accept the modifications to Sections 34.9 and 43.4 as complying with the directives in the March 17 Order.

## **B. Additional Revisions**

The March 17 Order additionally directed the ISO to modify the tariff language proposed in the ISO's initial filing as follows:

- Add tariff language to Section 43.2.6 clarifying that “the risk of retirement CPM designation will be exercised only if all other available procurement measures fail to procure the resources needed for reliable operation” and that the ISO “will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs”;<sup>5</sup>
- Delete proposed Section 43.2.6(6) regarding ISO review of financial information submitted by a resource owner in support of a request for a risk-of-retirement CPM designation;<sup>6</sup>
- Delete proposed Section 43.2.6.1 making a CPM designation subject to refund if issued while under review by the Department of Market Monitoring (DMM) or referral of investigation to the Commission by DMM;<sup>7</sup> and
- Add tariff language clarifying that “to the extent that use-limited resources are capable of performing the required service for the duration of the CPM designation or exceptional dispatch, the [ISO] will not unduly discriminate in favor of non-use-limited resources when applying the selection criteria in [ISO] Tariff section 43.4 to resources available for a CPM designation or exceptional dispatch.

In this compliance filing, the ISO deletes Tariff Sections 43.2.6(6) and 43.2.6.1, and amends Tariff Sections 34.9, 43.2.6 (Capacity At Risk Of Retirement Need for Reliability), and 43.4 to incorporate the changes required by the March 17 Order. The

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<sup>5</sup> March 17 Order, P. 130.

<sup>6</sup> *Id.* at P. 132-133.

<sup>7</sup> *Id.* at P. 133.

ISO respectfully requests that the Commission accept these tariff modifications as complying with the directives in the March 17 Order.

### **III. Materials Provided in the Instant Compliance Filing**

The following documents, in addition to this transmittal letter, support the instant filing:

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|--------------|---|
| Attachment A | Clean sheets incorporating the red-lined changes contained in Attachment B          |
| Attachment B | Red-lined changes to the Tariff to implement the revisions contained in this filing |

### **IV. Conclusion**

The ISO respectfully requests that the Commission accept the instant filing as complying with the directives of the March 17 Order and approve the proposed tariff modifications.

Respectfully submitted,

*/s/Beth Ann Burns*

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System Operator Corporation

Dated April 18, 2011

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA this 18th day of April, 2011.

*Anna Pascuzzo*

Anna Pascuzzo

**Attachment A – Clean Tariff**

**CPM Compliance Filing**

**California Independent System Operator Corporation**

**Fifth Replacement FERC Electric Tariff**

**ER11-2256-000**

**April 18, 2011**



### **34.9 Exceptional Dispatch**

The CAISO may issue Exceptional Dispatches for the circumstances described in this Section 34.9, which may require the issuance of forced Shut-Downs, forced Start-Ups, or forced MSG Transitions and shall be consistent with Good Utility Practice. Dispatch Instructions issued pursuant to Exceptional Dispatches shall be entered manually by the CAISO Operator into the Day-Ahead or RTM optimization software so that they will be accounted for and included in the communication of Day-Ahead Schedules and Dispatch Instructions to Scheduling Coordinators. Exceptional Dispatches are not derived through the use of the IFM or RTM optimization software and are not used to establish the LMP at the applicable PNode. The CAISO will record the circumstances that have led to the Exceptional Dispatch. Except as provided in this Section 34.9, the CAISO shall consider the effectiveness of the resource along with Start-Up Costs, Transition Costs, and Minimum Load Costs when issuing Exceptional Dispatches to commit a resource to operate at Minimum Load. When the CAISO issues Exceptional Dispatches for Energy, the CAISO shall also consider Energy Bids, if available and as appropriate. In accordance with Good Utility Practice, the CAISO shall make designations of Eligible Capacity for an Exceptional Dispatch CPM by applying the following additional criteria in the order listed:

- (1) the effectiveness of the Eligible Capacity at meeting the designation criteria specified in Section 43.2;
- (2) the capacity costs associated with the Eligible Capacity;
- (3) the quantity of a resource's available Eligible Capacity, based on a resource's PMin, relative to the remaining amount of capacity needed;
- (4) the operating characteristics of the resource, such as dispatchability, Ramp Rate, and load-following capability; and
- (5) whether the resource is subject to restrictions as a Use-Limited Resource.

In applying these selection criteria, the goal of the CAISO will be to issue Exceptional Dispatches on a least-cost basis to resources that will be effective in meeting the reliability needs underlying the Exceptional Dispatches. In making this determination, the CAISO will apply the first criterion to identify the effective Eligible Capacity by considering the effectiveness of the resources at meeting the designation criteria for the Exceptional Dispatch and at resolving the underlying reliability need, The

CAISO will apply the second criterion by considering the cost of the effective Eligible Capacity. The CAISO will endeavor to Exceptionally Dispatch a resource at the CPM Capacity price determined in accordance with Section 43.6.1 before selecting a resource with a higher unit-specific CPM Capacity price specified under Section 43.6.2. The CAISO will endeavor to Exceptionally Dispatch resources that have specified a capacity price before designating resources that have not specified a CPM Capacity price under Section 43.6.2.1. The CAISO will apply the third criterion by considering the quantity of a resource's Eligible Capacity. The CAISO will endeavor to select a resource that has a PMin at or below the capacity that is needed to meet the reliability need before selecting a resource that has a PMin that would result in over-procurement. The CAISO will apply the fourth criterion by considering specific operating characteristics of a resource, such as dispatchability, ramp rate, and load-following capability to the extent that such characteristics are an important factor in resolving the reliability need. The CAISO will apply the fifth criterion by considering whether a resource is use-limited and whether that status may restrict its ability to be available to the CAISO in the Day-Ahead Market and Real-Time Market throughout the period for which it is being procured. To the extent that use-limited resources are capable of performing the required service for the duration of the Exceptional Dispatch, the CAISO will not unduly discriminate in favor of non-Use Limited resources when applying the selection criteria. Imbalance Energy delivered or consumed pursuant to the various types of Exceptional Dispatch is settled according to the provisions in Section 11.5.6.

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#### **43.2.6 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 ISO to be in operation by the start of the subsequent RA Compliance Year that will meet the identified reliability need; and
- (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 43.2.6 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.

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 ISO will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs.

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#### **43.4 Selection Of Eligible Capacity Under The CPM**

In accordance with Good Utility Practice, the CAISO shall make designations of Eligible Capacity as CPM Capacity under Section 43.1 by applying the following criteria in the order listed:

- (1) the effectiveness of the Eligible Capacity at meeting the designation criteria specified in Section 43.2;
- (2) the capacity costs associated with the Eligible Capacity;
- (3) the quantity of a resource's available Eligible Capacity, based on a resource's PMin, relative to the remaining amount of capacity needed;
- (4) the operating characteristics of the resource, such as dispatchability, Ramp Rate, and load-following capability;
- (5) whether the resource is subject to restrictions as a Use-Limited Resource; and
- (6) for designations under Section 43.2.3, the effectiveness of the Eligible Capacity in meeting local and/or zonal constraints or other CAISO system needs.

In applying these selection criteria, the goal of the CAISO is to designate lower cost resources that will be effective in meeting the reliability needs underlying the CPM designations. In making this determination, the CAISO will apply the first criterion to identify the effective Eligible Capacity by considering the effectiveness of the resources at meeting the designation criteria for the type of CPM to be issued and at resolving the underlying reliability need. The CAISO will apply the second criterion by considering the cost of the effective Eligible Capacity. The CAISO will endeavor to designate a resource at the CPM Capacity price determined in accordance with Section 43.6.1 before selecting a resource with a higher unit-specific CPM Capacity price specified under Section 43.6.2. The CAISO will endeavor to designate resources that have specified a capacity price before designating resources that have not specified a CPM Capacity price under Section 43.6.2.1. The CAISO will apply the third criterion by considering the quantity of a resource's Eligible Capacity. The CAISO will endeavor to select a resource that has a PMin

at or below the capacity that is needed to meet the reliability need before selecting a resource that has a PMin that would result in over-procurement. The CAISO will apply the fourth criterion by considering specific operating characteristics of a resource, such as dispatchability, ramp rate, and load-following capability to the extent that such characteristics are an important factor in resolving the reliability need. The CAISO will apply the fifth criterion by considering whether a resource is use-limited and whether that status may restrict its ability to be available to the CAISO in the Day-Ahead Market and Real-Time Market throughout the period for which it is being procured. To the extent that use-limited resources are capable of performing the required service for the duration of the CPM designation, the CAISO will not unduly discriminate in favor of non-Use Limited resources when applying the selection criteria. The ISO will apply the sixth criterion by considering the effectiveness of the Eligible Capacity to meet local and/or zonal constraints or other CAISO system needs for CPM designations under 43.2.3. If after applying these criteria, two or more resources that are eligible for designation equally satisfy these criteria, the CAISO shall utilize a random selection method to determine the designation between those resources.

While the CAISO does not have to designate the full capability of a resource, the CAISO may designate under the CPM an amount of CPM Capacity from a resource that exceeds the amount of capacity identified to ensure compliance with the Reliability Criteria set forth in Section 40.3 due to the PMin or other operational requirements/limits of a resource that has available capacity to provide CPM service. The CAISO shall not designate the capacity of a resource for an amount of capacity that is less than the resource's PMin.

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**Attachment B – Marked Tariff**

**CPM Compliance Filing**

**California Independent System Operator Corporation**

**Fifth Replacement FERC Electric Tariff**

**ER11-2256-000**

**April 18, 2011**

### 34.9 Exceptional Dispatch

The CAISO may issue Exceptional Dispatches for the circumstances described in this Section 34.9, which may require the issuance of forced Shut-Downs, forced Start-Ups, or forced MSG Transitions and shall be consistent with Good Utility Practice. Dispatch Instructions issued pursuant to Exceptional Dispatches shall be entered manually by the CAISO Operator into the Day-Ahead or RTM optimization software so that they will be accounted for and included in the communication of Day-Ahead Schedules and Dispatch Instructions to Scheduling Coordinators. Exceptional Dispatches are not derived through the use of the IFM or RTM optimization software and are not used to establish the LMP at the applicable PNode. The CAISO will record the circumstances that have led to the Exceptional Dispatch. Except as provided in this Section 34.9, the CAISO shall consider the effectiveness of the resource along with Start-Up Costs, Transition Costs, and Minimum Load Costs when issuing Exceptional Dispatches to commit a resource to operate at Minimum Load. When the CAISO issues Exceptional Dispatches for Energy, the CAISO shall also consider Energy Bids, if available and as appropriate. In accordance with Good Utility Practice, the CAISO shall make designations of Eligible Capacity for an Exceptional Dispatch CPM by applying based on the following additional criteria in the order listed:

- (1) the effectiveness of the Eligible Capacity at meeting the designation criteria specified in Section 43.2;
- (2) the capacity costs associated with the Eligible Capacity;
- (3) the quantity of a resource's available Eligible Capacity, based on a resource's PMin, relative to the remaining amount of capacity needed;
- (4) the operating characteristics of the resource, such as dispatchability, Ramp Rate, and load-following capability; and
- (5) whether the resource is subject to restrictions as a Use-Limited Resource.

In applying these selection criteria, the goal of the CAISO will be to issue Exceptional Dispatches on a least-cost basis to resources that will be effective in meeting the reliability needs underlying the Exceptional Dispatches. In making this determination, the CAISO will apply the first criterion to identify the effective Eligible Capacity by considering the effectiveness of the resources at meeting the

designation criteria for the Exceptional Dispatch and at resolving the underlying reliability need. The CAISO will apply the second criterion by considering the cost of the effective Eligible Capacity. The CAISO will endeavor to Exceptionally Dispatch a resource at the CPM Capacity price determined in accordance with Section 43.6.1 before selecting a resource with a higher unit-specific CPM Capacity price specified under Section 43.6.2. The CAISO will endeavor to Exceptionally Dispatch resources that have specified a capacity price before designating resources that have not specified a CPM Capacity price under Section 43.6.2.1. The CAISO will apply the third criterion by considering the quantity of a resource's Eligible Capacity. The CAISO will endeavor to select a resource that has a PMin at or below the capacity that is needed to meet the reliability need before selecting a resource that has a PMin that would result in over-procurement. The CAISO will apply the fourth criterion by considering specific operating characteristics of a resource, such as dispatchability, ramp rate, and load-following capability to the extent that such characteristics are an important factor in resolving the reliability need. The CAISO will apply the fifth criterion by considering whether a resource is use-limited and whether that status may restrict its ability to be available to the CAISO in the Day-Ahead Market and Real-Time Market throughout the period for which it is being procured. To the extent that use-limited resources are capable of performing the required service for the duration of the Exceptional Dispatch, the CAISO will not unduly discriminate in favor of non-Use Limited resources when applying the selection criteria. Imbalance Energy delivered or consumed pursuant to the various types of Exceptional Dispatch is settled according to the provisions in Section 11.5.6.

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#### **43.2.6 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 ISO to be in operation by the start of the subsequent RA Compliance Year that will meet the identified reliability need; and
- (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 43.2.6 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;
- ~~(6) the CAISO reviews the affidavit and supporting financial information and documentation submitted by the resource owner pursuant to Section 43.2.6(5) and determines that the expectation of losses and decision to retire the resource are reasonable and supported by fact.~~

If the CAISO determines that all of the requirements have been met, prior ~~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 ISO will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs.

#### **~~43.2.6.1 Risk Of Retirement CPM Designation Pending Review~~**

~~The CAISO may issue a risk of retirement CPM designation pursuant to Section 43.2.6 prior to or during the pendency of any review by DMM of the affidavit and supporting financial information and documentation submitted by the resource owner or a referral of investigation to the Commission by DMM pursuant to Appendix P of the CAISO Tariff. Such CPM designation shall be subject to refund and shall remain in effect until it terminates under Section 43.3.7 or until otherwise ordered by the Commission.~~

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#### **43.4 Selection Of Eligible Capacity Under The CPM**

In accordance with Good Utility Practice, the CAISO shall make designations of Eligible Capacity as CPM Capacity under Section 43.1 by applying<sup>2</sup> based on the following criteria in the order listed:

- (1) the effectiveness of the Eligible Capacity at meeting the designation criteria specified in Section 43.2;
- (2) the capacity costs associated with the Eligible Capacity;
- (3) the quantity of a resource's available Eligible Capacity, based on a resource's PMin, relative to the remaining amount of capacity needed;
- (4) the operating characteristics of the resource, such as dispatchability, Ramp Rate, and load-following capability;
- (5) whether the resource is subject to restrictions as a Use-Limited Resource; and
- (6) for designations under Section 43.2.3, the effectiveness of the Eligible Capacity in meeting local and/or zonal constraints or other CAISO system needs.

In applying these selection criteria, the goal of the CAISO is to designate lower cost resources that will be effective in meeting the reliability needs underlying the CPM designations. In making this determination,

~~the CAISO will attempt to designate lower cost resources~~ apply the first criterion to identify the effective Eligible Capacity by considering the effectiveness of the resources at meeting the designation criteria for the type of CPM to be issued and at resolving the underlying reliability need, The CAISO will apply the second criterion by considering the cost of the effective Eligible Capacity. The CAISO will endeavor to designate a resource at the CPM Capacity price determined in accordance with Section 43.6.1 before selecting a resource with a higher unit-specific CPM Capacity price specified under Section 43.6.2. The CAISO will endeavor to designate resources that have specified a capacity price before designating resources that have not specified a CPM eCapacity price under Section 43.6.2.1, taking into account factors (1), (3), (4), (5) and (6) of this Section concerning the relative effectiveness of the resource and the resource's PMin. The CAISO will apply the third criterion by considering the quantity of a resource's Eligible Capacity. The CAISO will endeavor to select a resource that has a PMin at or below the capacity that is needed to meet the reliability need before selecting a resource that has a PMin that would result in over-procurement. The CAISO will apply the fourth criterion by considering specific operating characteristics of a resource, such as dispatchability, ramp rate, and load-following capability to the extent that such characteristics are an important factor in resolving the reliability need. The CAISO will apply the fifth criterion by considering whether a resource is use-limited and whether that status may restrict its ability to be available to the CAISO in the Day-Ahead Market and Real-Time Market throughout the period for which it is being procured. To the extent that use-limited resources are capable of performing the required service for the duration of the CPM designation, the CAISO will not unduly discriminate in favor of non-Use Limited resources when applying the selection criteria. The ISO will apply the sixth criterion by considering the effectiveness of the Eligible Capacity to meet local and/or zonal constraints or other CAISO system needs for CPM designations under 43.2.3. If after applying these criteria, two or more resources that are eligible for designation equally satisfy these criteria, the CAISO shall utilize a random selection method to determine the designation between those resources.

While the CAISO does not have to designate the full capability of a resource, the CAISO may designate under the CPM an amount of CPM Capacity from a resource that exceeds the amount of capacity identified to ensure compliance with the Reliability Criteria set forth in Section 40.3 due to the PMin or other operational requirements/limits of a resource that has available capacity to provide CPM service.

The CAISO shall not designate the capacity of a resource for an amount of capacity that is less than the resource's PMin.

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