



December 3, 2018

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

**Re: California Independent System Operator Corporation
Docket No. ER18-641-____
Quarterly Informational Report
Status of Reliability Must-Run and Capacity Procurement Mechanism
Stakeholder Process**

Dear Secretary Bose:

The California Independent System Operator Corporation (CAISO) hereby submits its quarterly report on the status of the Reliability Must-Run and Capacity Procurement Mechanism Stakeholder Process as directed by the Commission's April 12, 2018, order in the above-referenced docket.

Please contact the undersigned with any questions.

Respectfully submitted

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California ISO

**Quarterly Informational Report – Status of Reliability
Must-Run and Capacity Procurement Mechanism
Stakeholder Process**

December 3, 2018

In this report, the California Independent System Operator Corporation (“CAISO”) summarizes the status of the stakeholder process to review Reliability Must-Run (“RMR”) and Capacity Payment Mechanism (“CPM”) issues in response to guidance from the Commission’s April 12, 2018, order in docket no. ER18-641.¹ The April 12 Order rejected the CAISO’s January 12, 2018, proposal to enhance the risk of retirement (“ROR”) CPM designation process. One of the key features of its proposal was to create a new spring window, in addition to the existing fall window, for generators to request a ROR CPM designation. In its April 12 Order, the Commission found that a spring window could result in front-running the resource adequacy (“RA”) process, price distortions and interference with bilateral RA procurement. While noting that the CAISO had initiated a stakeholder process to review RMR and CPM issues, the Commission strongly encouraged the CAISO and stakeholders to adopt a holistic, rather than piecemeal, approach and also encouraged the CAISO to propose a package of more comprehensive reforms.

The CAISO recognizes the challenges of the changing industry and the need to consider changes to the RA program and the CAISO’s RMR and CPM backstop procurement mechanisms. The CAISO is active in RA proceedings at the California Public Utilities Commission (“CPUC”) and CPUC staff is active in the CAISO’s RMR and CPM Enhancements stakeholder initiative. The CAISO also has started the RA Enhancements initiative that will consider changes to the CAISO tariff.

Improvements to the RA Program

The CAISO believes that the RA program needs certain refinements to remain current as the grid transforms. An improved RA program could, among other things, reduce the potential use of CAISO backstop procurement. The CAISO is an active participant in the CPUC’s RA proceedings and is advocating changes to its RA program.

On November 21, 2018, the CPUC issued a proposed decision adopting significant refinements to its RA program. Most notably, the proposed decision (1) establishes multi-year procurement requirements for local RA capacity and (2) designates the utility distribution companies (“UDCs”) as central buyers for local RA capacity. Specifically, the CPUC’s proposed decision would require its jurisdictional load-serving entities to procure local RA resources on a three-year forward looking basis. The load-serving entities would be required to procure 100% of necessary local RA capacity in the first and second years and 80% in the third year of each cycle. The CAISO will provide its local capacity study to serve as the basis for the local procurement requirements.

The CAISO expects to address additional RA issues in Track 3 of the CPUC’s RA proceeding, which is expected to conclude in June 2019. Issues to be addressed in Track 3 include:

- Adopting an updated Effective Load Carrying Capability methodology for solar and wind resources that includes accounting for behind-the-meter solar.

¹ *Cal. Indep. Sys. Operator Corp.*, 163 FERC ¶ 61,023 (2018) at P 49 (April 12 Order).
GC/M&ID/M&IP/KJohnson

- Considering availability limitations such as maximum run time and call events in meeting local capacity needs.
- Adopting a higher demand forecast for system RA requirements in months that exhibit greater peak demand variability.

Separate from the CPUC's RA proceeding, the CAISO has started an RA Enhancements initiative that will consider the following changes to the CAISO tariff beginning with the RA compliance years 2020 and 2021.

- Multi-year RA.
- Multi-year needs assessments and load forecasting.
- Review Maximum Import Capability.
- RA validation to assess showings against CAISO operational needs.
- Slow response resources counting as local RA.
- Clarify RA must-offer obligations for system, local and flexible capacity from all resource types.

Improvements to CAISO Backstop Procurement Mechanisms

In the RMR and CPM Enhancements stakeholder initiative, the CAISO has consolidated the substantive issues under consideration and is reviewing them holistically. Some of the key items under discussion are listed below.

- Clarify use of RMR versus CPM procurement.
- Merge ROR CPM procurement and RMR procurement into one procurement mechanism under the RMR tariff.
- Consider modifications to compensation paid for RMR and CPM.
- Make RMR units subject to a must offer obligation.
- Update the rate of return for RMR resources.
- Provide flexible and system RA credits from RMR resources.
- Lower banking costs for RMR invoicing.
- Streamline and automate RMR settlement process.

The CAISO has held working group meetings on May 30, 2018, August 27, 2018, and November 1, 2018 to gather input from stakeholders. The working group meetings were well attended, including attendance by staff from the CPUC and CAISO. Stakeholders discussed the various items that are within the scope of the initiative. The agendas and presentations for the working group meeting can be found at: http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityMust-Run_CapacityProcurementMechanismEnhancements.aspx .

The CAISO will be issuing a second revised straw proposal on December 10, 2018 and has targeted taking a proposal to the CAISO Board of Governors in March 2019. The schedule for the RMR and CPM Enhancements stakeholder initiative is provided in Attachment 1.

On October 29, 2018, the Commission approved a limited interim change to the pro forma RMR agreement that effective September 1, 2018, applies to new RMR designations and allow the CAISO to terminate the interim form of agreement effective at the end of the contract year and immediately re-designate RMR resources under the new substantive RMR agreement for the following contract year. The right to immediately re-designate would not apply to RMR resources under RMR agreements currently in effect.

Current Schedule for RMR and CPM Enhancements Stakeholder Initiative

	Date	Milestone
Milestones prior to May 30	Nov 2, 2017	ISO commits to review RMR and CPM
	Nov – Apr	See June 26, 2018 straw proposal for milestones
Straw proposal	May 30	Hold working group meeting
	Jun 26	Post straw proposal
	Jul 11	Hold stakeholder meeting
	Aug 3	Discuss initiative at MSC meeting
	Aug 7	Stakeholder written comments due
Revised straw proposal	Aug 27	Hold working group meeting
	Sep 19	Post revised straw proposal
	Sep 27	Hold stakeholder meeting
	Oct 23	Stakeholder written comments due
Second revised straw proposal	Nov 1	Hold working group meeting
	Dec 10	Post second revised straw proposal
	Dec 20	Hold stakeholder conference call
	Jan 10, 2019	Stakeholder written comments due
Draft final proposal	Jan 23	Post draft final proposal
	Jan 30	Hold stakeholder meeting
	Feb 22	Stakeholder written comments due
Final proposal	Mar 27-28	Present proposal to Board of Governors

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in 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, California, this 3rd day of December, 2018.

1st Grace Clark

Grace Clark