



California ISO
Shaping a Renewed Future

Decision on capacity procurement mechanism framework

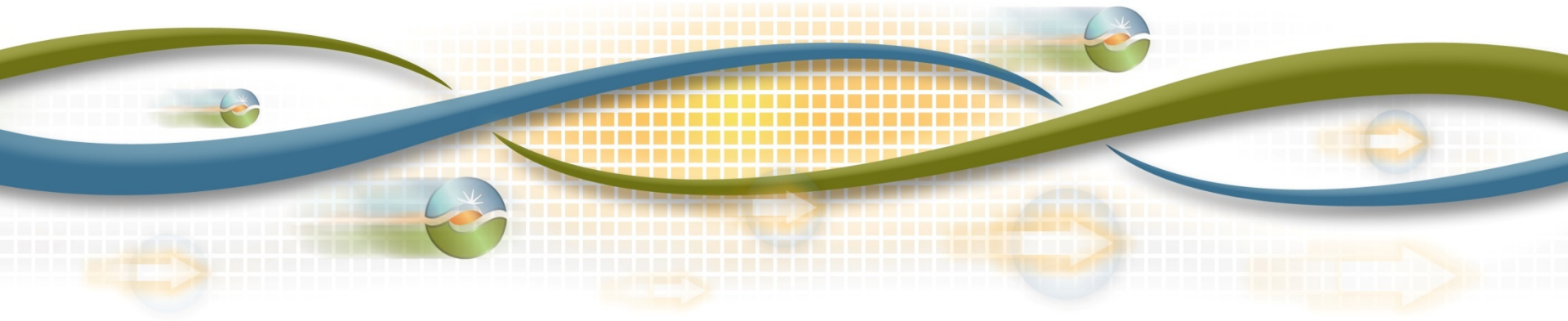
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ISO's capacity backstop tariff authority expires on February 16, 2016.

- Current tariff provisions result of 2012 settlement agreement.
- FERC indicated that the future backstop mechanism should be durable with a price that reflects market conditions.
- Since the current backstop mechanism was put in place the ISO added new flexible resource adequacy requirements.
- Proposal provides a durable solution to replace current administrative price with market-based procurement and pricing.

Proposal includes simple market-based mechanism.

- Suppliers offer local, system, and flexible capacity in annual and monthly competitive solicitation processes.
- Competitive solicitation process will run whenever the ISO determines there is a need for backstop capacity.
- Competitive solicitation process will:
 - assess supplier offers that meet the reliability need
 - procure the lowest cost capacity
 - pay as bid

Competitive solicitation process includes provisions for market power mitigation.

- Offers into competitive solicitation process will be limited by a fixed soft offer cap.
 - Provides market power mitigation
 - Based on cost of combined cycle unit
 - Suppliers may request FERC approval for a higher price
- Soft offer cap will be updated at least every four years using defined criteria through a stakeholder process.

Proposal also addresses gap in current rules for procurement eligibility and partial-RA resources.

- Capacity counted as RA for any part of a day will not be eligible for a backstop designation or payments on that day.
- Partial-RA resources will go through same process as non-RA resources to ensure that all non-RA capacity relied on by the ISO is compensated through a capacity procurement mechanism designation.

To avoid potentially costly litigious process at FERC, the ISO engaged stakeholders to develop settlement agreement prior to filing.

- Management and stakeholders successful in obtaining settlement agreement on design proposal.
- All parties either support or do not oppose the settlement market design (subject to tariff review).

NRG requested one issue be carved out of the settlement:

backstop payments for resources committed through the minimum online commitment constraint.

Management recommends the Board approve the proposal.

- Balances need for a market-based, durable mechanism with stakeholder desire to limit design complexity.
- Establishes a soft offer cap price methodology to mitigate market power and provides streamlined process for future updates.
- Provides authority to backstop for flexible resource adequacy capacity.
- Allows for preferred resources to fully participate in solicitation process.
- Does not diminish any of California's state energy policies.