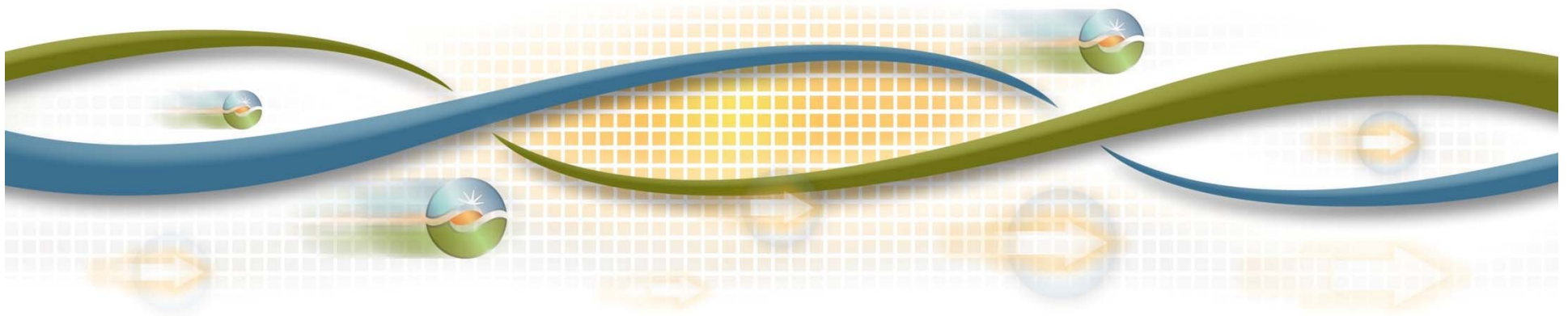




# Decision on commitment cost enhancements phase 2

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## Commitment cost enhancements is a three-phased initiative to improve market efficiency and reliability.

- Phase 1 provided enhancements for more efficient resource commitment during natural gas price spike events.
- Phase 2 proposes changes to the rules for offering resources to the ISO market to ensure resources are efficiently dispatched.
  - Modification to the definition of a “use-limited resource”
  - Changes to multi-stage generator transition costs rules
- Phase 3 will provide opportunity cost bidding for use-limited resources.

## Management proposes the following changes and clarifications to the “use-limited resource” definition.

### Definition changes:

- Use-limited resources are resources whose operation has an opportunity cost due to limited availability.
- Regulatory must-take, qualifying facility, and variable energy resource capacity are not use-limited resources.

### Clarification:

- Use limitations must be derived from a statute, regulation, ordinance, court order, or the resource’s design.

*Current use-limited resources, such as hydro, participating load, and demand response, will continue to be deemed use-limited.*

## ISO market rules accommodate use-limited resources' limited availability.

- Exempt from bid-insertion under resource adequacy must-offer rules.
- May use “registered cost” commitment cost bidding option to reflect opportunity costs until opportunity cost provisions are in place.
- Availability incentive mechanism in reliability services proposal provides accommodations for use-limited resources.




## Management proposes enhancements to the calculation of transition costs.

- Current calculation is complicated and does not allow for the same cost items as start-up costs.
  - allow for the same or similar cost items in transition costs as start-up costs, and
  - allow for daily bidding of transition costs.

## Stakeholders largely support the proposed commitment cost enhancements, however some concerns remain.

- Some stakeholders seek to deem resources whose availability is limited by CPUC-approved contracts as use-limited.
  - This conflicts with current and proposed “use-limited resource” definition.
- Some stakeholders seek to deem storage resources as use-limited due to concerns over the ISO market’s storage model and bid insertion rules.
  - The reliability services initiative exempts storage resources from bid insertion.
  - Management will address storage model in an upcoming energy storage and distributed energy resources initiative.



Management recommends the Board approve the proposal which provides for more efficient dispatch of use-limited and multi-stage generation resources.

- Modifications to the “use-limited” resource definition provides further clarity to market rules.
- Proposed refinements are an integral part of the reliability services initiative’s proposed must-offer obligations and availability incentive mechanism.
- Transition cost bidding enhancements will provide for more efficient dispatch of multi-stage generation resources.