

Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President of Market & Infrastructure Development

Date: October 25, 2017

Re: **Decision on reliability must-run designation for Metcalf Energy Center**

This memorandum requires Board action.

EXECUTIVE SUMMARY

In its June 2, 2017 letter to Steve Berberich, ISO President and CEO, attached for reference, Calpine Corporation indicated its intention to remove the Metcalf Energy Center from the relevant Participating Generator Agreement(s), making it unavailable for ISO dispatch effective January 1, 2018.

Anticipating that the generating units were found to be needed for reliability, the letter cited timing and other concerns with the ISO's capacity procurement mechanism, including the need for capital investment and other resource planning requirements, which would preclude waiting until late 2017 to take action.

The ISO conducted the necessary studies to confirm whether the absence of these units would create unacceptable reliability impacts and determined that the Metcalf Energy Center is required for the reliable operation of the transmission system. The ISO's reliability needs cannot be addressed with other alternatives within the 2018 calendar year.

Management therefore seeks Board approval of the designation of this combined cycle power plant as a reliability must-run resource. Management notes that neither the RMR designation nor the execution of an RMR agreement precludes the resources from being procured as a resource adequacy resource. In instances where a resource is both an RMR and a resource adequacy resource, the compensation available under the RMR agreement would be adjusted accordingly to ensure the absence of duplicative compensation, but the RMR contract would be available to compensate for costs that are not recoverable under the resource adequacy power purchase agreement.

Management recommends the following motion:

Moved, that the ISO Board of Governors authorizes Management to designate the Metcalf Energy Center for reliability must-run service

contingent upon execution of a reliability must-run contract with rates, terms and conditions acceptable to Management, as described in the memorandum dated October 25, 2017.

DISCUSSION AND ANALYSIS

The Metcalf Energy Center has been found to be required to meet local capacity requirement in the South Bay-Moss Landing sub-area of the Greater Bay Area. The sub-area local capacity requirement has been determined to be 2221 MW, and there are 2408 MW of total available resources in the sub-area. Removing any one unit or the entire Metcalf Energy Center will result in a sub-area deficiency.

For clarity, the Metcalf Energy Center remains under resource adequacy contract until the end of 2017 and is included in resource adequacy showings for 2017.

In the normal course established in recent years, the ISO would allow the 2018 resource adequacy procurement process to run its course, and requests the Board to designate this resource needed for RMR service pending the preliminary resource adequacy showing in the third quarter of 2017. If this resource needed for reliability was not procured for resource adequacy service, the ISO would execute the RMR option.

Calpine's June 2 letter indicates that neither the capacity procurement mechanism option nor the standard time-frame described above for an RMR arrangement is viable, and needs either to move forward with staffing plans for the changing status of the units, or have sufficient assurance of revenue stream to invest in needed capital maintenance to continue to make the needed resource available. Accordingly, Calpine requests that if the resource is in fact needed in 2018, that the ISO make this determination as soon as feasible.

In light of the reliability needs, Management proposes to designate the entire Metcalf Energy Center as a reliability must-run resource under tariff section 41. Calpine would then be expected to develop its proposed cost of service. ISO staff would then work with Calpine along with the responsible utility and CPUC to review Calpine's proposed cost of service, including any proposed capital investments. Subject to the resource adequacy showings in the third quarter of 2017, the RMR agreement would be executed as necessary and filed with FERC by Calpine.

POSITION OF PARTIES

The ISO presented the situation to stakeholders on a stakeholder call that took place on September 26, 2017.

Stakeholder questions and comments received during the call and in subsequent submitted comments focused on several themes:

- Stakeholders raised concerns with the timing of the RMR designation. The ISO explained that the resource adequacy process will still be allowed to run its course, and that the RMR designation would only be effective if this resource is not purchased as RA during 2018 operational year.
- Stakeholders suggest that the ISO should study all sub-areas to determine solutions to the identified resources capacity needs prior to retirement requests. The ISO noted that the Transmission Planning Process (TPP) includes retirement assumptions based on resource age and already announced retirements as agreed with other state agencies and stakeholders and memorialized in the TPP study plan.
- A number of questions regarding reliability criteria used, operational dispatch of RMR resources and Bay Area electric reliability reliance on combined cycle power plants were fielded.
- Several written comments raised larger concerns with the overall resource adequacy program and its implementation, citing those issues as leading to the current situation and the ISO's advancement of an RMR arrangement. While those issues will be considered in future policy discussions, they do not provide an alternative path to address the immediate reliability need.
- PG&E opposes the ISO's proposed RMR designation on procedural grounds, expressing the view that the ISO's designation of Metcalf as an RMR resource undercuts the Capacity Procurement Mechanism settlement, the competitive solicitation process, and the CPUC Resource Adequacy paradigm. In particular, PG&E views RMR as a measure of last resort, and that the RMR designation should only be invoked when all other tariff avenues for procuring needed capacity short of RMR have been exhausted. The ISO does not agree that it is procedurally necessary to proceed through alternative processes first, particularly those that facts and circumstances render infeasible, prior to an RMR designation. The ISO is adhering to the relevant tariff provisions that are also compatible with resource adequacy procurement.

Management has reviewed and considered the above comments, and considers that the RMR designation is nonetheless the necessary and appropriate course of action at this time.

CONCLUSION

Management recommends and seeks Board approval of the designation of the Metcalf Energy Center as reliability must-run resources.