

Memorandum

To: ISO Board of Governors
From: Neil Millar, Vice President of Transmission Planning and Infrastructure Development
Date: September 23, 2020
Re: **Decision on conditional approval to extend existing reliability must-run contracts for 2021**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management requests that the Board of Governors grant Management the authority to extend, through calendar year 2021, the reliability must-run contracts for the Dynegy Oakland, LLC (DO), Starwood Energy Group (SEG) and CSU Channel Islands Site Authority (CSU CISA) generating units listed in *Attachment 1*.

Total capacity and the number of resources under reliability must-run contracts with the California ISO has been significantly reduced since the implementation of the state's resource adequacy program and the addition of new grid facilities. However, reliability must-run contracts remain an important backstop instrument to ensure reliability when other alternatives are not viable.

Management exercises this authority to extend a reliability must-run contract or designate a resource as needed for reliability must-run service under any of the following conditions:

- A load serving entity does not purchase the capacity needed to satisfy local reliability criteria in the *ISO 2021 Local Capacity Technical Analysis* through a resource adequacy contract;
- The load serving entity does purchase the needed capacity under a resource adequacy contract, but Management needs a reliability must-run contract to:
 1. Obtain from the unit a reliability service, such as voltage support, black start or dual fuel capability; or
 2. Mitigate local market power; or
 3. Protect availability of a given resource that could be jeopardized or reduced without a reliability must-run contract.

- A resource is otherwise needed to meet local reliability service including voltage support, black start or dual fuel capability and is not under a resource adequacy contract.

Where a reliability must-run contract augments a resource adequacy contract, Management will ensure that any fixed-cost recovery will compensate the unit owner only for the incremental costs of providing reliability must-run services. This will guarantee the owner is not paid twice for its capacity.

Management proposes the following motion:

Moved, that the ISO Board of Governors authorizes Management to extend reliability must-run contracts for the Dynegy Oakland, LLC, Starwood Energy Group and CSU Channel Islands Site Authority generating units listed on Attachment 1 of the memorandum dated September 23, 2020, and consistent with the criteria described therein.

DISCUSSION AND ANALYSIS

The Oakland resources are required to meet the 2021 local capacity requirement in the Oakland sub-area of the Bay Area local area. The sub-area local capacity requirement was determined to be 99 MW, and while there are 158 MW of total available resources in the sub-area, after the assumed retirement of Oakland unit 2, only 110 MW (the remaining Oakland units) will directly participate in the ISO market. The rest of the resources are used as load-following by a metered sub system (MSS) and potentially may not be available to meet local reliability constraints. The need for the remaining Oakland resources is expected to come to an end at the end of 2022, after the Oakland Clean Energy Initiative¹ is in service.

Greenleaf II Cogen was found to be required to meet the 2021 local capacity requirement in the Drum-Rio Oso sub-area of the Sierra local area. The sub-area local capacity requirement was determined to be 700 MW, and there are only 645 MW (640 MW at peak) of total available resources in the sub-area including the Greenleaf II Cogen unit. The Rio Oso 230/115 kV Transformers project, which will mitigate the reliability need, is scheduled for September 2024 operation.

Channel Islands Power was found to be required to meet the 2021 local capacity requirement in the Santa Clara sub-area of the Big Creek/Ventura local area. The sub-area local capacity requirement has been determined to be 229 MW, and there are currently 247 MW of total available resources in the sub-area including the Channel

¹ The Oakland Clean Energy Initiative is a combination of substation upgrades, in-front-of-the-meter energy storage, and preferred resources that together will eliminate the need for the local capacity requirement for the Oakland Generation Station. The transmission components were approved as part of the 2017-2018 ISO Transmission Plan, available at: http://www.caiso.com/Documents/BoardApproved-2017-2018_Transmission_Plan.pdf in March, 2018. The other components are being pursued by PG&E through CPUC procurement processes. The current targeted in-service date is August, 2022.

Islands Power unit. A total of 195 MW (780 MWh) of new energy storage resources have been procured to meet the expected future retirement of Ellwood, however none of them are currently operational, and while some of them are still scheduled to be online by summer of 2021, any unexpected delay could leave this sub-area deficient.

The E.F. Oxnard, which is under RMR contract for 2020, has entered into an RA contract for the full amount of their available capacity through 2021 and will be available to the ISO without the need for an RMR contract.

Accordingly, Management requests authority to extend the Dynegy Oakland, LLC, Starwood Energy Group and CSU Channel Islands Site Authority, reliability must-run contracts (up to 186.7 MW of capacity) listed in *Attachment 1*. If additional resources are found to be needed for reliability must-run service, Management will seek further Board approval to enter into additional reliability must-run contracts to ensure local capacity and reliability requirements are met.

Under long-established provisions of the existing *pro forma* reliability must-run contract, by October 1 of any year, the ISO must notify a reliability must-run unit owner that the ISO wishes to extend the existing contract from January 1 through December 31 of the following year. If the contract is not extended by this date, the reliability must-run unit may not be designated again for one full year unless:

- The unit is needed due to the extended outage of another unit or a transmission element not known at the time of the contract expiration; or
- The unit is selected through a competitive process in which the unit owner participated.

The California Public Utilities Commission requires its jurisdictional load serving entities to provide a preliminary resource adequacy showing to the ISO by September 15, 2020, if they entered into a contract with any of the existing RMR units. This information will allow the ISO to potentially avoid an unnecessary extension of a reliability must-run contract. These showings are preliminary because the CPUC jurisdictional load serving entities have until October 31 to submit their final year-ahead resource adequacy showings. These final showings must demonstrate compliance with all CPUC-imposed year-ahead procurement targets (100% local capacity area resources and 90% of the load serving entities' demand forecast and reserve margin for the months of May through September).

Consistent with longstanding practice due to the timing required for renewal of the reliability must-run contracts, Management requests Board authorization to extend the term of the contracts for an additional year and delegate to Management the discretion to do so based on review of the preliminary resource adequacy showings. Management will update the Board on the results of reliability must-run contract extension at the November Board meeting.

ATTACHMENT 1: 2021 Reliability Must-Run Contract Status

RMR Units Extension Status			
<i>Any Extended RMR Contracts will be effective January 1, 2021 thru December 31, 2021</i>			
<i>Any Released RMR Contracts will be terminated effective Midnight on December 31, 2020</i>			
Owner	Unit	MW	Status
Starwood Energy Group	Greenleaf II Cogen	49.2	TBD
CSU Channel Islands Site Authority	Channel Islands Power	27.5	TBD
Atlantic Power Corporation	E.F. Oxnard	47.7	Released
Dynergy Oakland, LLC	Oakland, Unit 1	55.0	TBD
	Oakland, Unit 2	55.0	Released
	Oakland, Unit 3	55.0	TBD