

June 1, 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. ER18-641-000
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 first quarterly informational report on the progress of the ongoing stakeholder process addressing reliability must-run and risk of retirement capacity procurement mechanism. Pursuant to the Commission's order issued in the above-referenced docket on April 12, 2018, these quarterly reports will include information on whether the process is adhering to proposed timelines, updates on changes to the scope of the stakeholder process, and a description of any challenges that may impede progress.

The CAISO will file its next informational report on October 1, 2018, and every three months thereafter until the stakeholder process is completed.

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**

June 1, 2018

The California Independent System Operator Corporation (CAISO) CAISO is modifying its approach for the stakeholder process to review Reliability Must-Run (RMR) and Capacity Payment Mechanism (CPM) issues based on the Commission's April 12, 2018, order in docket no. ER18-641.¹ Through the April 12 Order, the Commission rejected the CAISO's January 12, 2018, filing to enhance the risk of retirement (ROR) CPM designation process. One of the key features of the CAISO 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 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 Review of RMR and CPM stakeholder initiative.

Improvements to the RA Program

The CAISO believes that the RA program needs improvements. 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 will be advocating changes to the RA program. Some of the key areas of interest to the CAISO at this point in time are listed below.

- Enhance flexible RA capacity procurement requirements
- Establish multi-year RA procurement
- Improve load forecasting assumptions
- Establish Local Capacity Area-specific procurement, including down to the local sub-area
- Improve counting rules to align resource capabilities with operational needs
- Establish a load serving entity (LSE) RA assessment methodology to ensure operational needs are met given the transforming grid
- Move up the annual RA showing timeline to enable timely and informed retirement decisions

¹ *Cal. Indep. Sys. Operator Corp.*, 163 FERC ¶ 61, 023 (2018) (April 12 Order).

Improvements to CAISO Backstop Procurement Mechanisms

In the Review of RMR and CPM stakeholder initiative, the CAISO has consolidated all of the substantive issues under consideration for the scope of this initiative and will review them holistically. Some of the key items that will be discussed are listed below.

- Enhance ISO backstop procurement processes
- Consider modifications to compensation paid for RMR and CPM
- Make RMR units subject to a must offer obligation
- Provide flexible RA credits from RMR units
- Modify cost allocation of CPM to reflect load migration
- Lower banking costs for RMR invoicing
- Streamline and automate RMR settlement process
- Propose non-substantive interim change to RMR *pro forma* agreement to allow for termination and re-designation once a new substantive RMR agreement is in place

The CAISO held a working group meeting on May 30, 2018, to gather input from stakeholders. The working group meeting was well attended, including staff from the CPUC, and the CAISO and stakeholders discussed the various items that are within the scope of the initiative. The agenda and presentation for the working group meeting can be found at: <http://www.aiso.com/Documents/AgendaandPresentation-Review ReliabilityMustRunandCapacityProcurementMechanism-May30.pdf>. Three stakeholders also made presentations during the working group meeting and the presentations can be found at: <http://www.aiso.com/informed/Pages/Stakeholder Processes/Review ReliabilityMust-Run CapacityProcurementMechanism.aspx>.

The CAISO will be issuing a straw proposal on June 26, 2018, and has targeted taking a proposal to the CAISO Board of Governors in March 2019. The schedule for the Review of RMR and CPM stakeholder initiative is provided in Attachment 1.

As noted above in the list of issues, the CAISO is considering filing this summer a potential non-substantive limited interim change to the *pro forma* RMR agreement that would allow the CAISO to terminate the agreement and immediately re-designate RMR resources under the new substantive RMR agreement once it is accepted by the Commission (following the end of the RMR contract year). The right to immediately re-designate would not apply to RMR resources under RMR agreements currently in effect. Under the current RMR agreement, the CAISO cannot terminate and immediately re-designate a resource for RMR service, but must wait for a one-year period before it can re-designate the resource. It would be imprudent for the CAISO not to extend the RMR contract under these circumstances. The proposed interim RMR contract would apply to RMR designations following Commission acceptance of a new *pro forma* RMR agreement.

Attachment 1

Schedule for Review of RMR and CPM Stakeholder Initiative

Stage	Date	Milestone
Milestones prior to May 30	Nov 2, 2017	CAISO commits to undertake review of RMR and CPM
	Jan 2, 2018	Issue market notice announcing this initiative
	Jan 23	Post issue paper and straw proposal for two items
	Jan 30	Hold stakeholder meeting
	Feb 20	Stakeholder written comments due
	Mar 13	Post draft final proposal for two items
	Mar 20	Hold stakeholder meeting
	Apr 10	Stakeholder written comments due
Straw proposal	May 30	Hold working group meeting
	Jun 26	Post new straw proposal
	Jul 11	Hold stakeholder 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
	Nov 19	Post second revised straw proposal
	Nov 26	Hold stakeholder meeting
	Dec 21	Stakeholder written comments due
Draft final proposal	Jan 23, 2019	Post draft final proposal
	Jan 30	Hold stakeholder meeting
	Feb 22	Stakeholder written comments due
Final proposal	Mar	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 lists in the above-referenced proceedings, 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 1st day of June, 2018.

/s/ Grace Clark

Grace Clark