



March 1, 2019

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-\_\_\_\_  
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 quarterly report on the status of the Reliability Must-Run and Capacity Procurement Mechanism Stakeholder Process as directed by the Commission's April 12, 2018, order in the above-referenced docket (*Cal. Indep. Sys. Operator Corp.*, 163 FERC ¶ 61,023 (2018), P 49).

Please contact the undersigned with any questions.

Respectfully submitted

**By: /s/ Sidney Mannheim**

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# California ISO

**Quarterly Informational Report – Status of Reliability  
Must-Run and Capacity Procurement Mechanism  
Stakeholder Process**

**March 1, 2019**

In this report, the California Independent System Operator Corporation (“CAISO”) summarizes the status of the stakeholder process to review Reliability Must-Run (“RMR”) and Capacity Payment Mechanism (“CPM”) issues in response to the directive in the Commission’s April 12, 2018, order in Docket No. ER18-641.<sup>1</sup> The April 12 Order rejected the CAISO’s January 12, 2018, proposal to enhance the risk of retirement (“ROR”) CPM designation process. One of the key features of the CAISO’s proposal was to create a new spring window for generators to request a ROR CPM designation. In its April 12 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 RMR and CPM Enhancements and RA Enhancements stakeholder initiatives that are considering changes to the CAISO tariff.

### **Improvements to the RA Program**

The CAISO believes that the RA program needs certain refinements to remain current as the grid transforms. An updated 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 is advocating changes to the CPUC’s RA program.

On February 21, 2019, the CPUC voted to adopt a revised proposed decision implementing significant refinements to its RA program.<sup>2</sup> Most notably, the decision (1) establishes multi-year procurement requirements for local RA capacity and (2) disaggregates the CPUC’s “Pacific Gas and Electric Company Other” local area capacity procurement by CAISO local capacity area. Specifically, the CPUC’s proposed decision requires its jurisdictional load-serving entities to procure local RA resources on a three-year forward looking basis. The load-serving entities must procure 100% of necessary local RA capacity in the first and second years, and 50% in the third year of each cycle. The CAISO will provide its local capacity study to serve as the basis for the local procurement requirements.

The CAISO expects the CPUC to address additional RA issues in Track 3 of the CPUC’s RA proceeding, which is expected to conclude in June 2019. Issues to be addressed in Track 3 include:

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<sup>1</sup> *Cal. Indep. Sys. Operator Corp.*, 163 FERC ¶ 61,023 (2018) at P 49 (April 12 Order).

<sup>2</sup> Available at <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M266/K785/266785992.PDF>.

- Identifying through workshops workable central buyer and central procurement structure proposals.
- Adopting an updated Effective Load Carrying Capability methodology for solar and wind resources that includes accounting for behind-the-meter solar.
- Considering availability limitations such as maximum run time and call events in meeting local capacity needs.
- Adopting a higher demand forecast for system RA requirements in months that exhibit greater peak demand variability.

Separate from the CPUC's RA proceeding, the CAISO is engaged in the CAISO's RA Enhancements initiative that is considering potential changes to the CAISO tariff in the following areas beginning with the RA compliance years 2020 and 2021:

- Multi-year RA.
- Multi-year needs assessments and load forecasting.
- Maximum Import Capability.
- RA validation to assess showings against CAISO operational needs.
- Slow response resources counting as local RA.
- RA must-offer obligations for system, local and flexible capacity from all resource types.

### **Improvements to CAISO Backstop Procurement Mechanisms**

In the RMR and CPM Enhancements stakeholder initiative, the CAISO is considering several issues pertaining to RMR and CPM. Some of the key items under discussion are listed below.

- Clarify use of RMR versus CPM procurement.
- Merge ROR CPM procurement and RMR procurement into one procurement mechanism under the RMR tariff.
- Consider modifications to compensation paid to CPM resources for bids above the soft offer cap.
- Make RMR resources subject to a must offer obligation.
- Make RMR resources subject to the RA Availability Incentive Mechanism.
- Update the rate of return for RMR resources.
- Provide flexible and system RA credits from RMR resources.
- Lower banking costs for RMR invoicing.
- Streamline and automate RMR settlement process.

The CAISO held working group meetings on May 30, 2018, August 27, 2018, and November 1, 2018 to gather input from stakeholders. The working group meetings were well attended, including attendance by staff from the CPUC and CAISO. Stakeholders discussed the various items that are within the scope of the initiative. The agendas and presentations for the working group meeting can be found at: [http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityMust-Run\\_CapacityProcurementMechanismEnhancements.aspx](http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityMust-Run_CapacityProcurementMechanismEnhancements.aspx).

The CAISO issued a draft final proposal on January 23, 2019 and is taking its proposal to the CAISO Board of Governors on March 27, 2019. The schedule for the RMR and CPM Enhancements stakeholder initiative is provided in Attachment 1.

On October 29, 2018, the Commission approved a limited interim change to the pro forma RMR agreement that, effective September 1, 2018, applies to new RMR designations.<sup>3</sup> This change allows the CAISO to terminate the interim form of agreement effective at the end of the contract year and immediately re-designate RMR resources under the new substantive RMR agreement for the following contract year. The right to immediately re-designate would not apply to RMR resources under RMR agreements currently in effect.

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<sup>3</sup> *Cal. Indep. Sys. Operator Corp.*, 165 FERC ¶ 61.0529 (2018).

## Attachment 1

## Schedule for RMR and CPM Enhancements Stakeholder Initiative

	<b>Date</b>	<b>Milestone</b>
<b>Milestones prior to May 30</b>	Nov 2, 2017	ISO commits to review RMR and CPM
	Nov – Apr	See June 26, 2018 straw proposal for milestones
<b>Straw proposal</b>	May 30	Hold working group meeting
	Jun 26	Post straw proposal
	Jul 11	Hold stakeholder meeting
	Aug 3	Discuss initiative at MSC meeting
	Aug 7	Stakeholder written comments due
<b>Revised straw proposal</b>	Aug 27	Hold working group meeting
	Sep 19	Post revised straw proposal
	Sep 27	Hold stakeholder meeting
	Oct 23	Stakeholder written comments due
<b>Second revised straw proposal</b>	Nov 1	Hold working group meeting
	Dec 10	Post second revised straw proposal
	Dec 20	Hold stakeholder conference call
	Jan 10, 2019	Stakeholder written comments due
<b>Draft final proposal</b>	Jan 23	Post draft final proposal
	Jan 30	Hold stakeholder meeting
	Feb 22	Stakeholder written comments due
<b>Final proposal</b>	Mar 27	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 list in the above-referenced proceeding, 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 1<sup>st</sup> day of March, 2019.

*1st Grace Clark*

Grace Clark