



California Independent  
System Operator Corporation

May 26, 2015

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. ER15\_\_\_\_-000**

**Tariff Amendment and Offer of Settlement Regarding Capacity  
Procurement Mechanism Revisions and Request for Waiver of Notice  
Requirement**

Dear Secretary Bose:

The California Independent System Operation Corporation (CAISO) respectfully requests that the Commission issue an order by September 21, 2015, approving: (1) the attached amended tariff language implementing revisions to the CAISO's expiring Capacity Procurement Mechanism (CPM) tariff authority; (2) the attached tariff language implementing the CAISO's proposed new CPM methodology; and (3) the attached Offer of Settlement that resolves all issues in this proceeding except one targeted issue – discussed herein – that the Offer of Settlement carves out for Commission consideration and decision.<sup>1</sup> The Offer of Settlement and proposed tariff sheets establish a new CAISO Tariff Section 43A that will apply to all CPM designations effective on and after March

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<sup>1</sup> The CAISO submits this filing pursuant to Section 205 of the Federal Power Act, 16 USC § 824d, Part 35 of the Commission's Regulations, 18 C.F.R. § 35, *et seq.*, and rules 207, and 602 of the Commission's Rules of Practice and Procedure, 18 CFR §§ 385.207 and 385.602. The CAISO also requests a waiver of Section 35.3 of the Commission's Regulations, 18 C.F.R. §35.3, to allow the proposed tariff provisions to go into effect more than 120 days after this tariff amendment filing. Capitalized terms not otherwise defined herein have the meanings set forth in the CAISO tariff, and references to specific sections, articles, and appendices are references to sections, articles, and appendices in the current CAISO tariff and revised or proposed in this filing, unless otherwise indicated.

1, 2016.<sup>2</sup> The CAISO submits the amended tariff language and the Offer of Settlement with the support or non-opposition of the stakeholders listed below that participated in the CAISO's Capacity Procurement Mechanism replacement stakeholder settlement process (Supportive Stakeholders).<sup>3</sup>

The existing CPM expires on February 16, 2016. The proposed tariff amendments ensure that the CAISO will have a replacement backstop capacity procurement mechanism in place to meet reliability needs upon expiration of the CPM. Consistent with prior Commission guidance, the CAISO proposes to replace the existing CPM process whereby the CAISO pays all designated CPM capacity a single administratively-determined price. Instead, the CAISO will procure backstop capacity through a competitive solicitation process and pay designated resources their bid price. A soft offer cap will apply to all offers into a competitive solicitation. The soft offer cap is based on the estimated levelized going-forward fixed costs of a merchant-constructed, mid-cost, 550 MW combined cycle unit with duct firing, as reflected in a cost study conducted by the California Energy Commission, plus a 20 percent adder. Resources have the option to make a filing with the Commission to cost justify a price higher than the soft offer cap based on the formula applicable to Reliability Must Run Resources. These pricing provisions respond to the Commission's guidance to provide enhanced fixed cost recovery opportunities to CPM resources. The tariff also establishes a process for possible updates to the soft offer cap every four years. This results in a more durable product without a sunset date that prior backstop mechanism have had. Finally, the CAISO proposes other tariff revisions related to implementing the new process and designating backstop capacity.

The amended tariff language and the Offer of Settlement are the product of extensive discussions among the Supportive Parties to develop a durable and competitive mechanism for backstop capacity procurement that will provide just

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<sup>2</sup> In addition, the CAISO is submitting tariff revisions extending the existing CPM provisions in Section 43 so they will apply to all CPM designations on or before February 28, 2016. Specifically, the CAISO proposes to delete language in Section 43.1 establishing the expiration of the CPM and replace it with language clarifying that Section 43 applies to CPM designations in existence before March 1, 2016.

<sup>3</sup> The Supportive Stakeholders are: Alliance for Retail Energy Markets; California Department of Water Resources State Water Project; California Large Energy Consumers Association; Public Utilities Commission of the State of California; Calpine Corporation; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Constellation; Dynegy; EnerNoc; Independent Energy Producers Association; Northern California Power Agency; NRG Energy, Inc.; Office of Ratepayer Advocates; Pacific Gas & Electric Company; San Diego Gas & Electric Company; Southern California Edison Company; and Western Power Trading Forum. Although all Supportive Stakeholders support or do not oppose the proposed tariff revisions and Offer of Settlement, this transmittal letter constitutes a CAISO filing under Section 205 of the Federal Power Act and was not reviewed by the Supportive Stakeholders. Accordingly, Supportive Stakeholders may not necessarily agree with (or be unopposed to) every statement in this transmittal letter.

and reasonable compensation to suppliers and respond directly to the Commission's prior guidance regarding backstop procurement by the CAISO.<sup>4</sup> In approving the tariff language and Offer of Settlement, the Commission would provide an opportunity for the CAISO and its stakeholders to end the cycle of reformulating and litigating the CAISO's backstop capacity procurement authority every few years. The parties could instead devote their scarce resources towards addressing more pressing matters. Accordingly, the CAISO requests that the Commission: (1) approve the attached tariff language and Offer of Settlement without revision; and (2) decide the merits of the sole issue "carved out" of the Offer of Settlement, *i.e.*, whether non-contracted capacity that the market software commits to meet a minimum online commitment constraint should receive a CPM designation. With respect to the latter matter, for the reasons discussed herein, capacity that is bid into the market and economically committed by the market software should not receive a CPM designation, particularly when the CAISO's operating procedures preclude the CAISO from leaning on non-resource adequacy capacity in enforcing a minimum online commitment constraint.

## I. HISTORY OF BACKSTOP PROCUREMENT AT THE CAISO

The CAISO and its stakeholders have a long and involved history with backstop capacity procurement. In 2007 the Commission approved an offer of settlement proposed by the CAISO and various other parties to institute the Reliability Capacity Services Tariff (RCST).<sup>5</sup> The settlement arose out of a Section 206 complaint proceeding. The RCST established both the authority for the CAISO to procure backstop capacity and the compensation owed to capacity procured pursuant to that authority. The RCST was followed by the Transitional Capacity Procurement Mechanism (TCPM),<sup>6</sup> the Interim Capacity Procurement Mechanism (ICPM),<sup>7</sup> and the current Capacity Procurement Mechanism (CPM).<sup>8</sup> The RCST, TCPM, ICPM, and CPM have all shared the same basic approach – the CAISO compensates all designated capacity based on an administrative price.

As with the RCST, the existing CPM compensation scheme arose from a settlement. The fixed price CPM compensation scheme that the CAISO initially filed was based on the going-forward fixed costs, plus 10 percent of those costs,

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<sup>4</sup> *Cal. Indep. Sys. Operator Corp.*, 134 FERC ¶¶ 61,211 (2011) (CPM Order).

<sup>5</sup> *Independent Energy Producers Association v. Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶¶ 61,069 (2006), *order on paper hearing*, 118 FERC ¶¶ 61,096 (2007).

<sup>6</sup> *Cal. Indep. Sys. Operator Corp.*, 123 FERC ¶¶ 61,229 (2008).

<sup>7</sup> *Cal. Indep. Sys. Operator Corp.*, 125 FERC ¶¶ 61,053 (2008).

<sup>8</sup> CPM Order, 134 FERC ¶¶ 61,211, *order approving uncontested settlement*, 138 FERC ¶¶ 61,112 (2012).

of a reference unit. The reference unit was a hypothetical 50 MW merchant-constructed, simple-cycle, gas-fired unit. As proposed by the CAISO, resources also would have been able to cost justify a higher price with the Commission by submitting their resource-specific going-forward costs, plus a 10 percent adder. The Commission accepted and suspended the CAISO's proposal subject to refund and set the core issue of CPM compensation for technical conference. The Commission found that the CAISO "failed to demonstrate that the proposed long-term, fixed price CPM, which is based on a resource's going-forward costs plus a 10 percent adder, is just and reasonable compensation for the capacity procured to maintain reliable operations, and find that it may be unjust and unreasonable."<sup>9</sup> The basis of the Commission's conclusion was two-fold: (1) the compensation potentially was too low to provide a meaningful opportunity for suppliers to recover fixed costs; and (2) a fixed compensation level would not fluctuate over time to reflect market conditions. On the other hand, the Commission was "not persuaded that parties have provided sufficient evidence that pricing backstop capacity compensation on the basis of CONE will yield a just and reasonable capacity rate for non-resource adequacy resources."<sup>10</sup>

Regarding the first concern, the Commission observed in the CPM Order that paying "going forward costs may create the potential for distorted pricing signals and deny resources a reasonable opportunity to recover fixed costs" and that the CAISO did not explain "how the use of going-forward costs for CPM compensation will provide incentives or revenue sufficiency for resources to perform long-term maintenance or make improvements that may be necessary to satisfy new environmental requirements or address reliability needs associated with renewable resource integration."<sup>11</sup>

Regarding the second concern, the Commission concluded that the CAISO failed to show that its proposal for a static CPM compensation level for all CPM capacity was "just and reasonable because of the likelihood that market conditions, which can affect the price of capacity, will fluctuate over time."<sup>12</sup> The Commission also stated that because "Resource [A]dequacy compensation has the potential to fluctuate over time based on changes in system conditions and the amount of capacity available to meet reliability needs," so too should CPM compensation.<sup>13</sup>

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<sup>9</sup> CPM Order at P 55.

<sup>10</sup> *Id.* at P 57.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at P 58.

<sup>13</sup> *Id.*

In response to the CPM Order, the CAISO and parties to the proceeding entered into settlement discussions. Those discussions resulted in a filed offer of settlement that the Commission subsequently approved.<sup>14</sup> The settlement included a provision that the accompanying tariff language would expire forty-eight months after the settlement was approved. Accordingly, absent further action, on February 16, 2016, the CAISO will have no backstop capacity procurement authority.

## **II. DESCRIPTION OF CURRENT CPM**

### **A. Categories of CPM Designation**

Under the existing CPM, the CAISO may procure capacity to maintain grid reliability or supplement resource adequacy procurement by load serving entities under the following circumstances defined in Section 43 of the tariff: (1) deficiency in local capacity area resources in a load serving entity's resource adequacy plan; (2) insufficient resource adequacy resources in a load serving entity's annual or monthly resource adequacy plan; (3) collective deficiency in a local capacity area after accounting for all procured resource adequacy resources; (4) a significant event occurs that threatens reliability and there are insufficient resource adequacy resources available to address the problem; (5) reliability or operational need requires the CAISO to exceptionally dispatch non-resource adequacy capacity; (6) capacity is at risk of retiring in the current resource adequacy compliance year and will be needed for reliability by the end to the calendar year following the current resource adequacy compliance year; and (7) cumulative deficiency in the total flexible resource adequacy capacity in the annual or monthly flexible resource adequacy capacity plans or in a flexible capacity category in the monthly resource adequacy plans of load serving entities.<sup>15</sup>

### **B. Duration of CPM Designation**

The term of a CPM designation varies from one month to one year, depending on the category of designation, underlying circumstances, and the duration of the deficiency or reliability problem.

- *Resource Adequacy deficiency CPM* – The designation is for the length of time needed to remedy the resource adequacy deficiency,

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<sup>14</sup> *Cal. Indep. Sys. Operator Corp.*, 138 FERC ¶ 61,112 (2012) (CPM Settlement Order).

<sup>15</sup> CAISO Tariff Section 9.3.1.3.2.5 also provides that the CAISO can procure backstop capacity under the CPM if a scheduling coordinator for a load serving entity does not provide sufficient operationally available resource adequacy capacity to meet a replacement requirement identified by the CAISO, and the resource does not reschedule or cancel the outage after the supply plan is submitted.

with a minimum designation period of one month. Because resource adequacy showings are an annual process, the potential maximum term for a deficiency-based CPM designation is one year (if there is a deficiency in every month).<sup>16</sup> The CAISO has never designated CPM capacity for a resource adequacy deficiency.

- *Risk-of-Retirement CPM* – The designation is for a minimum of one month and a maximum of one year. Within that range, the term is based on the number of months the resource is not otherwise under contract to provide resource adequacy capacity.<sup>17</sup> The CAISO has never designated capacity pursuant to the risk-of-retirement CPM designation.
- *Significant Event CPM* – The initial designation is for a 30-day term, but the CAISO may extend that term for an additional 60-day term if the triggering event is likely to persist.<sup>18</sup>
- *Exceptional Dispatch CPM* – The designation is for a 30-day term if the designation was necessary to address a system reliability need (*i.e.*, a need that does not depend on a resource in a specific geographic area) and a 60-day term if the designation was necessary to address a local reliability need (*i.e.*, resolution depends on a resource in a specific geographic area).<sup>19</sup> If the circumstances that led to the Exceptional Dispatch are likely to extend beyond the initial designation period, the CAISO may issue an Exceptional Dispatch CPM or other CPM designation for an additional 30 days or 60 days depending on whether the designation is for system or local reasons.

### **C. Grant of CPM Designation from Eligible Capacity**

Once a CPM triggering event occurs the tariff provides six criteria for the CAISO to consider in determining which capacity it will designate:

1. Effectiveness at meeting designation criteria.
2. Capacity costs associated with the Eligible Capacity.
3. Quantity of a resource's available Eligible Capacity relative to the amount of capacity needed.
4. Operating characteristics of the resource providing the capacity.

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<sup>16</sup> CAISO Tariff Sections 43.3.1, 43.3.2, 43.3.3, 43.3.4, & 43.3.8.

<sup>17</sup> CAISO Tariff Section 43.3.7.

<sup>18</sup> CAISO Tariff Section 43.3.5.

<sup>19</sup> CAISO Tariff Section 43.3.6.

5. Whether the resource providing the capacity is a Use-Limited Resource.
6. Where a load serving entity fails to show adequate capacity in a Resource Adequacy Plan, the effectiveness of the Eligible Capacity in meeting system constraints or other CAISO system needs.<sup>20</sup>

In applying the selection criteria, the CAISO's goal is to designate lower-cost resources that are effective at addressing the particular reliability need before designating higher-cost resources. If two or more resources are deemed equally effective under these criteria, then the CAISO uses a random selection method to choose the capacity to which the CPM designation is offered.

These criteria do not apply to a potential risk-of-retirement designation. Instead, the resource owner must provide the CAISO with an affidavit that the resource will retire in the absence of a risk-of-retirement CPM designation, and the CAISO must determine that the resource is needed for imminent reliability purposes. After these conditions are met the CAISO issues a public report on the need for the designation and provides load serving entities an opportunity to procure the resource under a resource adequacy contract.<sup>21</sup>

#### **D. Compensation for CPM Capacity**

Compensation for CPM Capacity is based on an administrative price, which is currently \$70.88/kW-year.<sup>22</sup> That annual rate is pro-rated to a monthly payment and is further shaped by availability considerations for both maintenance and forced outages.<sup>23</sup> If the Scheduling Coordinator for Eligible Capacity believes that the fixed administrative price will not compensate the resource for its going-forward costs, then the Scheduling Coordinator may make a resource-specific filing with the Commission requesting higher compensation.<sup>24</sup> The applicable formula for any cost justification filing is a resource's going-forward fixed costs plus 10 percent.

#### **E. Experience with the CPM Authority**

The CAISO has rarely used its CPM authority, which became effective on April 1, 2011. Of the 12 designations, more than half were associated with the unexpected circumstances leading to the eventual closure of the San Onofre

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<sup>20</sup> CAISO Tariff Section 43.4.

<sup>21</sup> CAISO Tariff Section 43.2.6.

<sup>22</sup> CAISO Tariff Section 43.7.1.

<sup>23</sup> CAISO Tariff Section 43.7.1.1.

<sup>24</sup> CAISO Tariff Section 43.7.1.2.

Nuclear Generating Station. The remaining designations resulted from significant transmission outages, the September 8 power outage, low gas inventories in Southern California on the SoCal Gas and Southwest Gas systems that resulted in over 2,000 MW being offline, and wildfires that were threatening certain key transmission facilities. All CPM designations have been either Significant Event or Exceptional Dispatch designations. Except for certain designations to address reliability concerns associated with San Onofre's closure, which totaled 180 days each, all other CPM designations have been for 30 or 60 days. The CAISO has never issued a CPM designation because of a resource adequacy deficiency or failure to replace capacity. Finally, no resource has made a resource-specific cost filing with the Commission.

### **III. STAKEHOLDER AND SETTLEMENT PROCESS**

The CAISO included the matter of a permanent replacement for the expiring CPM in the scope of its Reliability Services stakeholder initiative that began in January 2014. The CAISO's initial conceptual proposals regarding a CPM replacement were guided in significant part by the CPM Order. In July 2014, the CAISO moved CPM replacement to a separate standalone stakeholder process. The CAISO published several policy papers in the initiative on the premise that it would develop the CPM replacement as part of a traditional stakeholder process.<sup>25</sup>

As the initiative proceeded, the CAISO and stakeholders concluded that presenting a CPM replacement proposal to the Commission as an uncontested offer of settlement would benefit the CAISO, market participants, interested stakeholders, and the Commission by eliminating the litigation risk (and burdens) associated with backstop authority the CAISO has used rarely. Given the contentious history surrounding compensation for backstop capacity and the pattern of settlement negotiations in prior backstop proceedings, stakeholders found it appropriate to transition from a stakeholder process to a settlement process in the Fall of 2014. All CAISO stakeholders were given the opportunity to participate in the settlement discussions.

Through November and December, the Supportive Stakeholders held a series of in-person and telephonic meetings to negotiate the principles of a settlement agreement that would address the guidance provided in the CPM Order, result in a more durable process and mechanism, and be acceptable to all parties. As a result of the diligent and earnest efforts of the stakeholders involved, the CAISO and Supportive Stakeholders arrived at a proposal that,

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<sup>25</sup> The stakeholder record for the CPM initiative (including policy and tariff language development) can be found at:  
<http://www.aiso.com/informed/Pages/StakeholderProcesses/CapacityProcurementMechanismReplacement.aspx>.



pending review of tariff language, earned the parties' tentative support. On December 15, 2014, the CAISO publicly posted on the CPM stakeholder page a CPM replacement proposal that reflected the settlement principles agreed to by the Supportive Stakeholders. The CAISO then discussed the proposal at a public stakeholder meeting.<sup>26</sup> The meeting was open to all stakeholders, not just the settling parties. On February 5, 2015, CAISO Management presented that settlement to its Board of Governors and the Board provided authority for CAISO Management to proceed. Multiple Supportive Stakeholders, including SCE, PG&E, IEP, Calpine, NRG, and the CPUC, spoke at the Board meeting in support of the settlement agreement, conditioned on satisfactory resolution of any tariff development issues.

In early January, nearly a month before the settlement framework was presented to the Governing Board, the CAISO began its tariff stakeholder process. This process was open to all stakeholders irrespective of whether they had been involved in the settlement discussions. Through this stakeholder process the CAISO went through several rounds of written comments and conference calls to finalize tariff language and ensure that it reflected the settlement principles. The CAISO posted the tariff drafts on its public website and the conference calls discussing those drafts were open to public participation.

The Offer of Settlement explains each of the tariff revisions that the CAISO is proposing in this tariff amendment filing. The Offer of Settlement is supported or not opposed by a diverse range of stakeholders including the California Public Utilities Commission, load serving entities, municipal utilities, suppliers, demand response providers, end users, and ratepayer advocates. No stakeholder has expressed opposition to the Offer of Settlement or the replacement CPM proposal. The Offer of Settlement provides for a just and reasonable resolution of the issues in this proceeding and is in the public interest.

#### **IV. DESCRIPTION AND JUSTIFICATION OF PROPOSED TARIFF REVISIONS**

At no point has the CAISO intended for its backstop capacity procurement authority to lapse in February 2016. As the CAISO explained in its Section 205 filing in 2010 to implement CPM, “[i]t is imperative [to] have an orderly, pre-approved means to procure backstop capacity where and when needed to meet applicable reliability criteria or otherwise maintain reliable grid operations” and that the CAISO “must have the appropriate tools at its disposal under such

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<sup>26</sup> The documents from the CAISO Governing Board meeting are available at: <http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=3CDF08DC-CD6F-432A-94BD-6BAF77D41BC1>

circumstances to maintain reliable operations.”<sup>27</sup> Those statements apply with equal force now. In accepting a four-year CPM sunset timeline, the CAISO expected to work with stakeholders to develop a more durable backstop procurement mechanism that responds to the guidance the Commission provided in the CPM Order. As a result of the intensive process described above, the CAISO presents for Commission approval a revised CPM mechanism that provides the CAISO needed authority to maintain grid reliability, provides just and reasonable compensation to capacity receiving a CPM designation, and responds directly to Commission guidance regarding prior backstop capacity proposals. Importantly, it results from an Offer of Settlement that is supported or not opposed by all stakeholders that participated in the stakeholder settlement process.

**A. The Competitive Solicitation Processes Provide a Transparent and Efficient Method of Designating CPM Capacity**

The core change implemented through the Offer of Settlement is how the CAISO will select the capacity to receive CPM designations and how that capacity will be compensated. Under Proposed Section 43A, designation of CPM Capacity, other than Risk-of-Retirement designations, will be made through a competitive solicitation process. The CAISO does not propose to change any of the existing events for which it may procure backstop capacity.

The CAISO will operate separate competitive solicitation processes in order to cover potential CPM events – one in the year-ahead timeframe annually, one in the month-ahead timeframe monthly, and one on-going process that will run throughout the delivery month. The CAISO will use the annual competitive solicitation process to make CPM designations to address insufficient cumulative local, system, or flexible capacity in annual resource adequacy plans, as well as collective deficiencies in local areas. The CAISO will use the monthly competitive solicitation process to make CPM designations to address insufficient cumulative local, system, or flexible capacity in monthly resource adequacy plans, and insufficient cumulative system capacity due to planned outages.<sup>28</sup> The CAISO will use the intra-monthly competitive solicitation process to make CPM designations to address significant events and exceptionally dispatch resources.

The CAISO and the Supportive Parties agree that the CAISO would not use a competitive solicitation process to designate CPM capacity under the Risk-of-Retirement category. Instead, the CAISO will retain the existing process for

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<sup>27</sup> *Cal. Indep. Sys. Operator Corp.*, Transmittal Letter, at 15, FERC Docket No. ER11-2256 (Dec. 1, 2010).

<sup>28</sup> Section 9.3.1.3.2.5 of the CAISO Tariff sets forth the CAISO’s authority to grant a CPM designation for insufficient cumulative system capacity due to planned outages. The Offer of Settlement and revised tariff provisions do not amend or address this tariff section.

granting Risk-of-Retirement CPM designations and add a requirement that the resource have offered into all competitive solicitations for the current resource Adequacy year.<sup>29</sup> Unlike the other six CPM categories, a Risk-of-Retirement designation is inherently resource-specific and thus not amenable to a competitive solicitation process. The risk-of-retirement process requires that the specific resource at risk of retirement be needed for reliability purposes by the end of the calendar year following the current resource adequacy compliance year.<sup>30</sup> In other words, the CAISO cannot meet the identified reliability need without that specific resource. The proposed pricing provisions (discussed *infra*) applicable to CPM designation categories apply as well to Risk-of-Retirement designations.<sup>31</sup>

The CAISO's proposed competitive solicitation processes meets the Commission's competitive solicitation process requirements. The Commission has established the following four principles for evaluating competitive solicitation processes:

- *Transparency* – The competitive solicitation should be open and fair.
- *Definition* – The product or products sought through the competitive solicitation process should be precisely defined.
- *Evaluation* – Evaluation criteria should be standardized and applied equally to all bids and bidders.
- *Oversight* – An independent third-party should design the solicitation, administer bidding, and evaluate bids prior to selection.

The CPM competitive solicitation process satisfies these four principles.<sup>32</sup> The competitive solicitation is open to all non-Resource Adequacy, Reliability Must Run, and CPM resources. The CAISO tariff already requires the CAISO to make public information regarding CPM designations, including price and the reasons for the designation. Pursuant to the Offer of Settlement, the CAISO also proposes to post certain final bid information on a rolling basis with a five-quarter delay.<sup>33</sup> The rules and mechanisms concerning how the CAISO selects the seller

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<sup>29</sup> Proposed CAISO Tariff Section 43A.2.6 (6).

<sup>30</sup> CAISO Tariff Section 43.2.6.

<sup>31</sup> Proposed CAISO Tariff Section 43A.2.6 (5).

<sup>32</sup> *Allegheny Energy Supply Co., LLC*, 108 FERC ¶ 61,082, P 22 (2004).

<sup>33</sup> Proposed CAISO Tariff Section 43A.6.4. Specifically, the CAISO proposes to post (1) technology or fuel type of the resource, (2) kW-month of capacity offered, (3) for annual and monthly competitive solicitations the capacity type offered, (4) the competitive solicitation into which the capacity was offered, and (5) the flexible capacity category, if applicable. Published information will not include the identity of the party offering capacity into a competitive solicitation.

and processes the offers are set forth in the tariff and are understandable. Further, the CPM product and categories of CPM are clearly defined in previously approved tariff provisions. The CAISO is not proposing to change those provisions. The evaluation criteria upon which the CAISO must rely in designating CPM capacity are all set forth in the tariff; there are no non-tariff criteria. The criteria apply to all bids and bidders. The CAISO, an independent entity, will administer the competitive solicitation and evaluate the bids.<sup>34</sup>

The use of a competitive solicitation to procure backstop capacity is comparable to the authority the Commission previously has granted the CAISO in Section 42 of the CAISO tariff to procure Ancillary Services contracts, short-term generation supply contracts, and load curtailment contracts if the CAISO's annual forecast shows that applicable reliability criteria cannot be met during peak demand periods. The CAISO notes that, just like the revised CPM mechanism, Section 42 authorizes the CAISO to select the bids that permit the satisfaction of applicable reliability criteria at lowest cost.

#### **B. The Designation Process Will Allow The CAISO To Procure Effective Capacity And Minimize Overall Cost**

Scheduling Coordinators for Eligible Capacity will submit offers to the competitive solicitation process from which they wish to receive a designation. When the CAISO needs to grant a CPM designation, it will follow a sequential two-step process: (1) identify the pool of Eligible Capacity with offers to the competitive solicitation process that can meet the identified reliability need or deficiency,<sup>35</sup> and then (2) designate CPM capacity "in order to minimize the overall cost of meeting the CPM designation criteria."<sup>36</sup>

Under the first step, the CAISO must identify the resources offered into the competitive solicitation that are effective at meeting the underlying need for CPM capacity. In other words, a resource must meet the minimum designation criteria. The first step considers how a unit's resource characteristics or operational availability may impact its ability to meet the designation criteria. For example, a system resource with a long start-up time would not be in the eligible pool of resources if a CAISO operator needed a resource to come online in the next 10 minutes to maintain reliability during an unplanned transmission outage. This same resource, however, would be within the pool of Eligible Capacity if the

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If fewer than three resources of a particular technology or fuel type have offered into a competitive solicitation, the CAISO will consolidate reporting for multiple technology or fuel types.

<sup>34</sup> The CAISO's Department of Market Monitoring will have access to all bid information and will be able to monitor for any potential manipulation.

<sup>35</sup> Proposed CAISO Tariff Section 43A.4.2.1.

<sup>36</sup> Proposed CAISO Tariff Section 43A.4.2.2.

CAISO needed to procure CPM capacity to meet a deficiency in a monthly Resource Plan. Although the resource does not meet the minimum criteria for an unexpected system emergency causing the CAISO to designate CPM Exceptional Dispatch capacity, it does meet the minimum criteria for a deficiency in a monthly resource adequacy plan. If the total capacity from all resources offered into a competitive solicitation process is insufficient to meet the minimum designation criteria, then the CAISO may offer the CPM designation to Eligible Capacity that was not offered to the competitive solicitation process.<sup>37</sup> Finally, if unoffered Eligible Capacity cannot meet the minimum CPM designation criteria, then the CAISO may lower the minimum criteria and start the process over. This process allows the CAISO to explore all options to procure backstop capacity to address an identified CPM need.

The second step fundamentally involves an optimization process. This process will not only consider the offer price for Eligible Capacity but also the relevant characteristics of the unit offering that capacity. The resource characteristics the CAISO may consider in determining which resource to designate include: “the quantity of a resource’s available Eligible Capacity, based on a resource’s PMin, relative to the remaining amount of capacity needed; and the quantity of a resource’s available Eligible Capacity, based on outages and replacement or substitute daily RA Capacity.”<sup>38</sup> Considering these factors is necessary to ensure that the CAISO minimizes overall costs, which might not happen if the CAISO simply chose the capacity with the lowest offer. For example, the CPM designation cannot be below a resource’s PMin. If the CAISO only needs to procure a few MWs of capacity, a low-priced offer from a unit with a high PMin may wind up costing more than a relatively higher offer from a unit with a very low PMin because the CAISO would be obligated to procure more MW of capacity from the former resource in order to meet the identified CPM need.

In the designation process, the CAISO will also take into account known planned outages and days the resource may be used as replacement or substitute resource adequacy capacity in the designation process. Using the applicable capacity costs, the CAISO will next use the resource’s available capacity after outages and days as replacement or substitute resource adequacy capacity, and the amount of capacity the CAISO needs, to calculate a \$/kW-month comparable value.

The optimization also includes a “tiebreaker” provision.<sup>39</sup> If multiple offers would equally meet the cost minimization criteria, then the CAISO will consider

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<sup>37</sup> Any such capacity so designated will be considered to have an offer price at the CPM Soft Offer Cap.

<sup>38</sup> Proposed CAISO Tariff Section 43A.4.2.2.

<sup>39</sup> Proposed CAISO Tariff Section 43A.4.2.3.

the relative effectiveness of the capacity in meeting local and/or zonal constraints or CAISO system needs and the relative operating characteristics of the resources providing the capacity, including dispatchability, ramp rate, and load-following capability to reduce the chances of a subsequent CPM designation. The CAISO must have the ability to select the capacity that maximizes the reliability features available to the CAISO and that will best enable the CAISO to meet the identified reliability need and any future reliability need that may arise during the term of designation. As the Commission has recognized, the purpose of backstop capacity is to enhance reliability. Under the circumstances, it is prudent and reasonable for the CAISO to select those resources that have the best potential and ability to maximize overall reliability during the term of the designation and therefore reduce potential future CPM designation costs. These “tiebreaker” criteria are consistent with existing designation criteria that the CAISO considers.<sup>40</sup> For the intra-monthly competitive solicitation process, the “tiebreaker” goes into effect if the costs of awarding two or more offers would be within 10 percent of each other. The reason for this 10 percent boundary is that by the time an intra-monthly competitive solicitation process would be run, immediate and near-term reliability needs are well-known and the CAISO must have the ability not only to resolve the current reliability need, but also, within reasonable parameters, select a slightly more expensive resource that may mitigate the need for an additional potential CPM designation in the near term.

**C. Compensating CPM Capacity Based on the Results of the Competitive Solicitation Processes Provides Compensation Driven by Competitive Factors**

Under Proposed Section 43A.7, the CAISO will compensate CPM Capacity based on the product of the quantity of CPM Capacity designated and a unit’s bid up to the CPM Soft Offer Cap or a Commission-approved resource-specific rate. Basing compensation on accepted offers is important in two respects.

First, compensation based on accepted offer prices reflects the Commission’s prior guidance that CPM compensation reflect changes in market conditions.<sup>41</sup> Unlike a fixed-price CPM, the proposed competitive solicitation process will allow CPM prices to fluctuate over time as system conditions and the amount of capacity available to meet reliability change.<sup>42</sup> Procuring CPM through the competitive solicitation is also consistent with the Commission’s preference for using market-based mechanisms wherever possible, rather than out-of-market solutions.

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<sup>40</sup> See CAISO Tariff Section 43.4.

<sup>41</sup> CPM Order at P 205.

<sup>42</sup> *Id.* at P 58.

Second, compensation on a pay-as-bid approach, rather than a single clearing price, reflects the unique nature of the CPM and the CPM competitive solicitation process.<sup>43</sup> CPM serves as a rarely used backstop procurement mechanism to address short-term transitory events. The CAISO typically relies on CPM to procure an individual resource to respond to unexpected, unplanned-for system conditions or meet unique reliability needs that might occur at a given point in time. CPM is not a capacity clearing market like those in place in the eastern ISOs and RTOs, and it is not a process for clearing load and supply in the marketplace. Backstop capacity generally is non-homogenous (limited interchangeability) because the CAISO typically designates CPM capacity based on specific characteristics such as location or resource capabilities. Also, the CPM backstop is not intended to incentivize new generation. The pricing approach contemplated in the Offer of Settlement is consistent with the approach the Commission has approved in CAISO tariff Section 42 and the competitive solicitation processes of other public utilities.

**D. The CPM Soft Offer Cap Provides a Just and Reasonable Opportunity for Resources to Recover their Costs While also Mitigating Market Power**

Under the proposed tariff provisions there will be a soft offer cap of \$6.31/kW-month (\$75.68/kW-year) for Eligible Capacity bid into a competitive solicitation.<sup>44</sup> This value is the estimated levelized going-forward fixed costs for a mid-cost, merchant-constructed, 550 MW combined cycle unit with duct firing resource (the “reference resource”), plus 20 percent of those costs. The costs of the reference resource are based on a California Energy Commission (CEC) study reflected in a May 2014 staff report.<sup>45</sup> The CEC study not only examines the costs of new generation in California, but it also assesses and captures data on the going-forward fixed costs (*i.e.*, *ad valorem* costs, insurance, and fixed O&M costs) associated with existing generation. The CAISO previously has relied on the CEC’s generation cost studies for purposes of establishing the backstop capacity price under the RCST, ICPM, and CPM. To the extent the CPM Soft Offer Cap does not provide a resource with an opportunity to recover its fixed costs, resources have the opportunity to make a filing with the Commission to cost-justify a higher rate using the formula for determining the

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<sup>43</sup> See Presentation of CAISO Market Surveillance Committee member Shmuel S. Oren at the August 22, 2014 California Market Surveillance Meeting: [http://www.aiso.com/Documents/BriefingMarketPowerMitigationCapacityProcurementMechanism-MS\\_C\\_Presentation-2.pdf](http://www.aiso.com/Documents/BriefingMarketPowerMitigationCapacityProcurementMechanism-MS_C_Presentation-2.pdf)

<sup>44</sup> Proposed CAISO Tariff Section 43A.4.1.1.

<sup>45</sup> CAL. ENERGY COMM’N, *Estimated Cost of New Renewable and Fossil Generation in California*, CEC-200-2014-003-SD (May 2014) (CEC Cost Study), available at: <http://www.energy.ca.gov/2014publications/CEC-200-2014-003/CEC-200-2014-003-SD.pdf>.

Annual Fixed Revenue Requirement applicable to Reliability Must Run resources, as set forth in Schedule F to the *pro forma* RMR Agreement.<sup>46</sup>

This CPM Soft Offer Cap adopted in the Offer of Settlement is just and reasonable, in the public interest, and a necessary complement to the competitive solicitation processes. Combined with the opportunity to make a resource-specific cost filing that can take into account all fixed costs (not just going-forward fixed costs), it is simultaneously *high enough* to ensure contributions to fixed cost recovery and *low enough* to provide appropriate market power mitigation.

Use of a combined cycle unit as the reference resource is based on the following factors: (1) gas-fired resources typically are marginal resources in the CAISO markets; (2) combined cycle units make up the largest percentage of non-resource adequacy resources that would be eligible to receive CPM designation; (3) because the going-forward fixed costs of a combined cycle unit are slightly higher than those of a combustion turbine unit, use of a combined cycle as the reference unit, rather than a combustion turbine, will reduce the number of resource-specific cost justification filings under Section 205 that might need to be made, thereby reducing the burden on market participants and the Commission; and (4) use of a relatively higher-cost resource will discourage load serving entities from “leaning” on CAISO backstop procurement. The CAISO proposed to use the combined cycle with duct firing simply because duct firing is a common feature for combined cycle resources participating in the resource adequacy program.

At least four separate factors support the use of going-forward fixed costs combined with the 20 percent adder.

First, the methodology adopted in the Offer of Settlement addresses the guidance provided by the Commission in its CPM Order. In its CPM tariff amendment filing, the CAISO proposed a 10 percent adder to the going-forward fixed costs of the most expensive gas-fired resource in the CEC cost study (as well as a resource-specific cost justification opportunity based on a resource’s going-forward fixed costs plus 10 percent). As noted above, the Commission found that the CAISO’s proposal did not provide sufficient fixed cost recovery, stating that a compensation methodology should provide “at a minimum, a meaningful opportunity for CPM resources to recover additional fixed costs”<sup>47</sup> and “support incremental investment by existing resources.”<sup>48</sup> Elsewhere, the Commission noted that paying “going forward costs may create the potential for

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<sup>46</sup> Proposed CAISO Tariff Section 43A.4.1.1.1.

<sup>47</sup> CPM Order at P 59.

<sup>48</sup> *Id.*



distorted pricing signals and deny resources a reasonable opportunity to recover fixed costs.”<sup>49</sup>

Using a 20 percent adder, rather than a lower adder, will address these concerns and allow additional fixed cost recovery consistent with the CPM Order. The CAISO notes that the CEC Cost Study does not examine or calculate the capital-related fixed costs of existing resources, and instead calculates only their going-forward fixed costs. The 20 percent adder serves as a reasonable proxy for the capital-related fixed costs (including incremental investment costs) that existing units may have and, to the extent a specific resource has higher fixed costs, a resource owner can justify them consistent with the methodology used by RMR resources. The adder will allow return on and of capital to allow recovery of additional fixed costs. For example, the adder facilitates the costs of incremental upgrades, including upgrades to enhance flexibility and make resources more efficient, upgrades to satisfy environmental requirements, upgrades to address reliability associated with renewable integrations, and other plant modernization upgrades. Moreover, the adder has been agreed upon by a broad range of market participants – load serving entities, suppliers, municipal utilities, end users, consumer representatives, and the CPUC – and constitutes an integral element of the Offer of Settlement.

Second, a 20 percent adder accounts for the fact that the CAISO is using the CEC’s mid-cost case, which uses median values and estimates for the various cost components of going-forward fixed costs. There will be resources with going-forward costs higher than the mid-cost case. The CEC studies typically determine a range of cost numbers for resources – low, high, and mid-cost. The CEC’s cases are not representative of any single project; rather, they reflect a portfolio of projects as a whole. The CEC’s high cost study uses the highest cost factors that represents how any project might fare under the most favorable (or unfavorable) conditions. Thus, there will be resources with higher costs than the mid-cost scenario. The 20 percent adder, in conjunction with the opportunity to cost justify all fixed costs, adequately addresses any fixed cost recovery issues such resources may have.<sup>50</sup>

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<sup>49</sup> *Id.* at P 57.

<sup>50</sup> For illustrative purposes, based on the CEC’s cost of service study, the going-forward fixed costs (without any adder) for both an existing combustion turbine and a combined cycle under the high-cost scenarios studied by the CEC are well in excess of the CPM Soft Offer Cap. Specifically, the going-forward fixed cost of a combined cycle resource under the high cost scenario studied by the CEC is \$117.24/kW-year, and the going-forward fixed cost of a combustion turbine resource under the high cost scenario studied by the CEC is \$109.29/kW-year. Because these are extreme case scenarios that are not generally applicable, it would not be appropriate to use them to set the CPM Soft Offer Cap without also implementing necessary market power mitigation measures such as a pivotal supplier test. The approach adopted in the Offer of Settlement recognizes that the CAISO rarely uses CPM and that, under such circumstances, a simpler approach that avoids complex market power mitigation measures and avoids litigation is a more prudent and reasonable approach.

Third, the adder establishes the CPM Soft Offer Cap at the high end of the range of resource adequacy prices. The limited data that is publicly available shows the 85<sup>th</sup> percentile of resource adequacy contracts for CPUC load serving entities for the Resource Adequacy Compliance Years 2012-2016 to be \$6.46kW-month, *i.e.*, \$76.52./kW-year, which is close to the proposed CPM Soft Offer Cap price of \$75.68/kW-year. This price, and other pricing reference points, are reflected in Tables 10 and 11 of the *2012 Resource Adequacy Report* produced by the Staff of the California Public Utilities Commission in April 2014.<sup>51</sup> The CAISO has no other public information available to it regarding aggregated bilateral contract prices for resource adequacy capacity. A CPM Soft Offer Cap set at the high end of resource adequacy prices recognizes that the pool of CPM Eligible Capacity represents capacity that was not contracted to provide resource adequacy capacity for the period in question and that CPM typically involves short-term designations (30 days or 60 days), rather than the longer term contracting typically seen under the resource adequacy program.<sup>52</sup> The proposed level of the CPM Soft Offer Cap should not provide disincentives for load serving entities to enter into bilateral resource adequacy contracts and instead rely on CAISO backstop procurement.<sup>53</sup> The CAISO believes that it achieves this goal because it is at the upper end of the range being paid for resource adequacy capacity.<sup>54</sup> On the other hand, the CPM Soft Offer Cap is not set at too high a

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<sup>51</sup> The report is available at: <http://www.cpuc.ca.gov/NR/rdonlyres/94E0D083-C122-4C43-A2D2-B122D7D48DDD/0/2012RARReportFinal.pdf>

The report notes that in late 2013, Energy Division staff issued a data request to all jurisdictional load serving entities requesting monthly capacity prices paid by them for every resource adequacy capacity contract covering the 2012-2016 compliance years. The report states that in 2012, the sum of monthly contracted capacity represents only approximately 33 percent of the 2012 monthly sum of resource adequacy requirements, net of CAM, RMR, and DR applications. The remainder of resource adequacy capacity for that year was not reported because it was not provided via a resource adequacy-only contract, or it was not provided by a load serving entity that did not respond to the Energy Division's request. The data pool reflected in years 2013-2016 is even lower. The report shows the following 85<sup>th</sup> percentile resource adequacy capacity prices based on the information provided and contracts entered into at the time of the 2013 data request: 2012 – \$7.85/kW-month based on 33.4 percent of the total capacity in the data set; 2013 – \$7.30/kW-month based on 25.5 percent of the total capacity in the data set; 2014 – \$7.34/kW-month based on 18.9 percent of the total capacity in the data set; 2015 – \$6.10/kW-month based on 15.1 percent of the total capacity in the data set; 2016 – \$4.01/kW-month based on 7.0 percent of the total capacity in the data set.

<sup>52</sup> *Joint Reliability Plan Track 1 Staff Report*, California Public Utilities Commission, Docket R.14-02-001, p. 18, October 2014.

<sup>53</sup> As discussed *infra*, the CAISO will proactively monitor backstop procurement to determine whether it potentially is being used as a primary means for load serving entities to procure resource adequacy capacity.

<sup>54</sup> The Commission previously has found that pricing backstop capacity at the upper end of the range is not unreasonable and provides non-resource adequacy resources with payments for

price that would allow suppliers with locational market power to command significantly higher prices.

Fourth, although the purpose of the proposed adder is much broader, it also will account for costs that are uncertain or difficult to quantify or as a margin of calculation error in the CEC's study.<sup>55</sup> The Commission has accounted for these types of costs in approving previous adders.<sup>56</sup>

The ability of a resource to justify compensation above the CPM Soft Offer Cap using the formula applicable to Reliability Must Run resources is also significant because the formula accounts for all fixed costs, not only going-forward fixed costs. This provides additional certainty that capacity receiving a CPM designation receives appropriate compensation and contribution toward fixed cost recovery and it thus responsive to the Commission's guidance in the CPM Order.

The transition from administrative pricing to competitive pricing also raises the need for some form of market power mitigation. Because there may be a limited pool of non-resource adequacy resources available to meet a given reliability need, the potential exists for resources to exercise market power. Without some form of mitigation, resources that are uniquely situated to resolve a foreseeable reliability need might have an incentive to submit bids as high as possible. The CPM Soft Offer Cap serves as that needed mitigation.

The proposed mitigation recognizes that an overly elaborate, complex, and administratively costly mitigation scheme is unwarranted under the circumstances where the CAISO has rarely used its CPM authority. The Offer of Settlement avoids potential litigation of this matter and is supported or not opposed by the CPUC, load serving entities, end users, and ratepayer advocates. The CPM Soft Offer Cap essentially serves as a reasonable damage-control bid cap that acts similar to an ancillary services bid cap in the energy market. There are no market power mitigation measures for ancillary service procurement and, instead, the CAISO relies on a damage control bid cap of \$250. Also, the proposed cap level has cost-based origins and is within the

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capacity services that are comparable to the payment received by resource adequacy resources. *California Independent System Operator Corporation*, 125 FERC ¶ 61,053 at P 41 (2008).

<sup>55</sup> The CAISO notes that in its ICPM filing approved by the Commission, the CAISO utilized a 10 percent adder to going-forward fixed costs to account for costs that are difficult to quantify and as a margin of error in the CEC's study.

<sup>56</sup> *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services into Markets Operated by the California Independent System Operator Corporation and the California Power Exchange*, 96 FERC ¶ 61,120 at 61,519 (2001); *Public Service Co. of New Mexico*, 95 FERC ¶ 61,481 at 62, 714 (2001); *Niagara Mohawk Power Corp.*, 86 FERC ¶ 61,009 at 61,025 (1999); *Terra Comfort Corporation*, 52 FERC ¶ 61,241 at 61,841 (1990).

range of resource adequacy bilateral contract prices. Further, the initial level of the CPM Soft Offer Cap is only slightly higher than the administrative price that the CAISO currently pays to all CPM resources – \$70.88/kW-year. The CPM Soft Offer Cap will prevent excessive compensation by reasonably limiting how high a resource can offer to a competitive solicitation process. At the same time, the cap level is set reasonably high enough to minimize the number of individual Section 205 cost justification filings that might be made, while not being set so low as to overly mitigate resources, thereby potentially encouraging load serving entities not to contract bilaterally and instead lean on the CAISO backstop. This will promote efficiency and eliminate burdens associated with developing and establishing proceedings to set prices for individual resources in connection with a mechanism that is rarely used and, when used, typically only results in designations for short periods.

Finally, a supplier must offer capacity into each competitive solicitation before the CAISO determines that a deficiency or reliability need exists. Suppliers will not have the flexibility to increase their original offer price; although, they may offer a lower price. This will increase pressure to bid competitively and not exert market power. Also, the pay as-bid approach will minimize the benefits of exerting market power and facilitate scrutiny of bidding behavior.

**E. A Single Offer Cap for All Capacity Types in all Competitive Solicitation Processes Provides Additional Market Power Mitigation**

The same CPM Soft Offer Cap will apply to all capacity types (system, local, flexible) and all competitive solicitation processes (annual, monthly, intra-monthly). A single offer cap for all products in all competitive solicitation processes ensures that offers are in line with what the CAISO would expect from existing resources in a competitive environment. There is a broad range of capacity costs, and no single price will perfectly represent a competitive price for every resource. Competitive costs will reflect a number of variables, including, but not limited to: contract details, location, resource-specific costs, maintenance schedules, term of the CPM designation, and market conditions. These variables are also time- and CPM-event specific.

The set of available resources that can meet the CAISO's specific needs will vary based on when the CPM event occurs, what resource characteristics the CAISO needs to resolve the reliability issue, and whether the CAISO needs capacity in a specific location. Until a CPM event occurs, there is no way to predict the specific marginal backstop resource to address that need. Therefore, using a single soft offer cap price limits the exertion of market power, while allowing resources an opportunity to recover their reasonable costs.

In order to prevent potential double payments by the CAISO, if a supplier individually offers both flexible and generic capacity and the resource receives an

annual or monthly designation for one type of capacity, in any subsequent competitive solicitations that overlap in time with the CPM designation, the CAISO automatically will offer the non-designated resource adequacy-type capacity in at \$0/kW-month into the overlapping competitive solicitation process up to the minimum of the amount available as non-resource adequacy capacity and the amount of the capacity originally designated.<sup>57</sup> A resource cannot receive two CPM payments for the same capacity.<sup>58</sup>

#### **F. Periodic Updates to the CPM Soft Offer Cap Provide a More Durable Backstop Capacity Procurement Mechanism**

A key design principle of the Offer of Settlement is that the CPM needs to be durable and allow for regular updating of the CPM Soft Offer Cap to account for changing conditions. Proposed Section 43A.4.1.1.2 requires the CAISO to hold a stakeholder process at least every four years to review the CPM Soft Offer Cap. The stakeholder process is meant to start with the CEC's publication of a new draft of its Cost of Generation Study and Model (or similar cost study) that sets forth estimates for the levelized going-forward fixed costs of a mid-cost, merchant-constructed 550 MW combined cycle unit with duct firing, or similar advanced combined cycle resource, *i.e.*, the reference resource. If the CEC has not issued a draft report within the 46-month period, then the CAISO must start the stakeholder process before the end of the four-year period.

Proposed Section 43A.4.1.1.2 does not obligate the CAISO to update the CPM Soft Offer Cap; instead, it obligates the CAISO to initiate a stakeholder process to evaluate whether the CPM Soft Offer Cap should be updated. The stakeholder process will consider whether the CPM Soft Offer Cap adequately reflects 120 percent of the going-forward fixed costs of the reference resource at the time of the stakeholder initiative. The final results of the CEC cost study will serve as the basis for such assessment. If final results are not available for use in the stakeholder initiative, then the CAISO will use published draft results. If there are no final or draft CEC study results, then the CAISO shall commission or administer a study of the levelized going-forward fixed costs of a mid-cost, merchant-constructed, 550 MW combined cycle unit with duct firing, or similar advanced combined cycle resource. The stakeholder process would not automatically reassess the use of the specified reference resource or the 20 percent adder, but the Offer of Settlement does not preclude any party from proposing changes to the tariff formula for calculating the CPM Soft Offer Cap.

Following completion of the stakeholder process, to the extent the CAISO proposes to update the CPM Soft Offer Cap, it would propose such update

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<sup>57</sup> Proposed CAISO Tariff Section 43A.4.1.2.

<sup>58</sup> Proposed CAISO Tariff Section 43A.7.1.2.

through a Section 205 filing. All parties reserve their rights with respect to any filing to update the CPM Soft Offer Cap, provided that if the CAISO does not propose to alter either the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20 percent adder to set the CPM Soft Offer Cap, any party that challenges the CAISO's retention of those elements of the CPM Soft Offer Cap shall bear the burden of demonstrating to the Commission that use of such reference resource, cost components, or 20 percent adder is unjust, unreasonable, unduly discriminatory or preferential, or otherwise contrary to law.

### **G. Exceptional Dispatch CPM Designation Of Capacity of Partial Resource Adequacy Resources**

Currently, under Section 43.2.5.2.1, if the CAISO exceptionally dispatches a resource that does not have a self-schedule or market-based commitment, and is not a resource adequacy resource, Reliability Must Run Unit, and does not have a CPM designation, then CAISO shall designate as CPM Capacity the greater of the resource's Pmin or the quantity of capacity needed from the resource to address the reliability issue as determined in an engineering assessment if available at that time. For designations made in the post day-ahead timeframe, the CAISO will make an initial determination of the quantity of Exceptional Dispatch CPM Capacity and will subsequently make a post day-ahead reliability assessment of the amount of capacity need to address the reliability issue. If the post day-ahead reliability assessment shows that no additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the resource will be compensated based on the initial quantity designated. If the post day-ahead assessment shows that additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the CAISO will designate the incremental quantity of capacity and treat the total amount of capacity designated as a single designation.

This tariff provision ensures that the CAISO compensates exceptionally dispatched resources for the entire amount of capacity on which the CAISO is relying regardless of the actual dispatch level in real-time. There is a gap in the existing tariff because this process does not apply to partial resource adequacy resources that have some portion of their capacity available to be exceptionally dispatched. Accordingly, in Proposed Section 43A.2.5.2.1, the CAISO proposes to institute a post day-ahead reliability assessment process for all partial resource adequacy resources that receive an Exceptional Dispatch. This assessment will follow the same process and principles applicable to the post day-ahead reliability assessment for non-resource adequacy resources that receive an Exceptional Dispatch. This revision is an integral element of the Offer of Settlement.

## H. Payments to CPM Resources

The CAISO will compensate CPM capacity on a monthly basis based on the product of the offer price and the quantity of capacity the CAISO accepts as CPM.<sup>59</sup> Because the CAISO is no longer basing monthly compensation on a CPM Availability Factor, the revised tariff clarifies that Appendix F, Schedule 6 applies only to CPM designations made prior to March 1, 2015. For CPM designations made after March 1, the CAISO will adjust monthly CPM payments so CPM capacity does not receive a CPM payment for days they shown as resource adequacy capacity or replacement or substitute resource adequacy capacity for the same capacity type. This is consistent with the existing paradigm that capacity should not receive both a resource adequacy payment and a CPM payment.

CPM Capacity will be subject to a resource-specific Availability Incentive Mechanism Price for non-performance. The price will be based on the higher of the accepted capacity's CPM price or the general Resource Adequacy Availability Incentive Mechanism Price (*i.e.*, \$3.79/kW-month) applicable to all resource adequacy resources that the CAISO is proposing in its Reliability Services Initiative tariff amendment filing.<sup>60</sup> The Reliability Services Initiative tariff amendment also establishes the general performance metrics and standard for all resource adequacy and resource adequacy-type capacity (including CPM capacity). This filing establishes the applicable availability incentive price for CPM resources.

## I. Key Design Elements Carried Over from Current CPM

The Offer of Settlement proposes to maintain many core aspects of the CAISO's current CPM that the Commission already has determined to be "fair and reasonable and in the public interest."<sup>61</sup> The proposed tariff maintains the substance of the seven existing categories of CPM Capacity procurement (*i.e.*, Proposed Section 43A.2) and the term of such designations (*i.e.*, Proposed Section 43A.3). The public notice and reporting requirements also stay largely the same (*i.e.*, Proposed Section 43A.6), with conforming changes to address the changed nature of the competitive solicitation processes as compared to administrative pricing. The obligations of capacity designated as CPM Capacity (*i.e.*, Proposed Section 43A.5), the allocation of the costs of procuring CPM capacity (*i.e.*, Proposed Section 43A.8), and crediting CPM Capacity to load

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<sup>59</sup> Proposed CAISO Tariff Section 43A.7.1.

<sup>60</sup> Proposed CAISO Tariff Section 43A.5.4.

<sup>61</sup> CPM Settlement Order at P 18. For informational purposes only, Attachment D contains a redlined document showing the differences between Proposed Section 43A and existing Section 43.

serving entities (*i.e.*, Proposed Section 43A.9) also remain largely the same. The Offer of Settlement also retains the Supplemental Revenues option for non-resource adequacy resources that do not offer into the intra-monthly competitive solicitation and are exceptionally dispatched by the CAISO.<sup>62</sup> The current Supplemental Revenues option allows resources to receive unmitigated energy market revenues in lieu of an Exceptional Dispatch CPM payment.<sup>63</sup> Finally, the tariff provisions and Offer of Settlement retain the voluntary nature of the CPM.

## V. MATTERS ADDRESSED IN THE OFFER OF SETTLEMENT AND NOT REFLECTED IN TARIFF PROVISIONS

The Offer of Settlement addresses three issues that are not reflected in the proposed tariff revisions because they are not rates, terms, and conditions of CPM service.<sup>64</sup> However, these items are integral components of the overall Offer of Settlement and are critical to certain Supportive Stakeholders. Accordingly, in addition to approving the proposed tariff provisions, the CAISO requests that the Commission approve the Offer of Settlement, including these three important provisions, as resolving all issues in this proceeding. The three issues that the Offer of Settlement resolves are as follows:

1. The CPM is not intended to be a source of primary capacity procurement by load serving entities. The Offer of Settlement defines two separate triggers that indicate whether load serving entities might be using the CPM for primary capacity procurements: (1) within a rolling 24 month period, the same load serving entity twice relies on the CPM to meet any resource adequacy deficiency; or (2) any load serving entity meets more than 50 percent of its annual or monthly resource adequacy obligation for a year or month, respectively, with CPM capacity procured by the CAISO on the load serving entity's behalf. The first time either trigger is met, per the Offer of Settlement, the CAISO would "open a stakeholder initiative to explore whether load serving entities have relied on the CPM, to an unacceptable extent, as a primary means of capacity procurement."<sup>65</sup> The stakeholder process may consider prospectively applicable remedial measures design to avoid load serving entity reliance on the CPM.

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<sup>62</sup> Revised CAISO Tariff Section 39.10.3.

<sup>63</sup> Revised CAISO Tariff Section 39.10.4 alters the Supplemental Revenues cap so that it would now be met when the capacity receives Supplemental Revenue compensation comparable to what it would have received if it had accepted a CPM designation at the CPM Soft Offer Cap. Currently, such revenues are capped at a level based on the Monthly CPM Capacity Payment.

<sup>64</sup> Offer of Settlement, § 5.

<sup>65</sup> *Id.* at § 5.2.



2. Under the proposed tariff provisions, a resource providing resource adequacy capacity other than flexible resource adequacy capacity could receive a flexible capacity CPM designation for a flexible capacity resource adequacy deficiency. If this were to happen, the resource potentially could receive total payment for such capacity in excess of the CPM Soft Offer Cap. A key principle underlying the Offer of Settlement is that, absent a Commission-approved resource-specific offer cap, a CPM designation should not result in capacity receiving total capacity payments (CPM plus resource adequacy) in excess of the CPM Soft Offer Cap. Accordingly, if the CAISO issues a Flexible Capacity CPM designation, then, per the Offer of Settlement, the CAISO would consult with the relevant Local Regulatory Authority. If total compensation exceeds the CPM Soft Offer Cap, then the CAISO would “open a stakeholder initiative to explore any potential issues created by the multiple payments and consider possible mitigation measures to address the issue.”<sup>66</sup>
3. No Local Regulatory Authority in the CAISO footprint currently requires its load serving entities to meet multi-year forward resource adequacy requirements. If that were to change, then, per the Offer of Settlement, the CAISO would “open a stakeholder initiative to consider adding a new category of CPM designation” and “may also consider whether any corresponding changes to the CAISO’s Risk-of-Retirement CPM designation are warranted.”<sup>67</sup>

## **VI. RESOURCES COMMITTED BY THE MARKET SOFTWARE TO MEET A MINIMUM ONLINE CONSTRAINT SHOULD NOT RECEIVE A CPM DESIGNATION**

The Offer of Settlement explicitly excludes resolution of whether the non-contracted capacity of a resource committed by the CAISO market software to meet a minimum online commitment constraint (MOCC) should receive a CPM designation. The Offer of Settlement provides that parties are free to address this issue either in this proceeding or in any future proceeding, as appropriate.<sup>68</sup> As discussed below, resources committed by the market software to meet a MOCC should not receive a CPM designation.

In February 2010, the CAISO began incorporating additional constraints into the market models used for the Integrated Forward Market to require a

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<sup>66</sup> *Id.* at § 5.3.

<sup>67</sup> *Id.* at § 5.4.

<sup>68</sup> *Id.* at § 2.4.

minimum quantity of online capacity in defined areas to meet reliability requirements set forth in CAISO operating procedures.<sup>69</sup> Using a minimum online commitment constraint, the CAISO's market model commits resources through the standard optimization process recognizing voltage requirements and other operating constraints. The market software only commits resources that have submitted a bid in the market, and it commits such resources in lowest cost to satisfy all modeled constraints, operational requirements, and demand. Thus, the minimum online constraint is part of the market optimization process, and that optimization process commits units to meet the MOCC and market needs based on their bid cost. The market results do not provide the CAISO with an accounting of which specific units the market cleared to satisfy any minimum online commitment constraint separate and apart from other units clearing the market. In other words, the CAISO does not know whether the market software committed a resource because of a minimum online constraint, because of a different market constraint, or as part of market clearing.

Five years after the CAISO began enforcing a MOCC in the market software, certain stakeholders now seek to include in the settlement a requirement that the CAISO grant a CPM designation to resources that bid into the market and are committed by the market optimization software to meet the MOCC.

For a variety of reasons, granting a CPM designation to units committed to meet a MOCC is unwarranted and inconsistent with Commission policy. Specifically, a "MOCCd" unit is not providing capacity, is not covering up a resource adequacy deficiency, and is not being committed "out-of-market." Further, awarding a CPM designation to a MOCCd unit would undermine the resource adequacy program, run counter to Commission policy on Exceptional Dispatch, and contradict prior Commission rulings on similar issues.

#### **A. The CAISO Does Not Use A MOCC "Lean" On Non-Resource Adequacy Resources**

One possible rationale for granting a CPM designation to a resource committed to meet the MOCC would be the notion that the CAISO "MOCCs" a unit as a substitute for relying on resource adequacy capacity. However, based on how the CAISO has implemented the MOCC, the CAISO cannot "lean" on non-resource adequacy capacity when it commits resources to satisfy a MOCC. Under CAISO Operating Procedure 1210 (Running the Day-Ahead Market), the CAISO determines whether any MOC constraint needs to be enforced for the current Day-Ahead market. There must be sufficient resource adequacy, RMR,

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<sup>69</sup> CAISO, Technical Bulletin 2010-01-02 Minimum Online Commitment Constraint (Jan. 2010) available at <http://www.caiso.com/Documents/TechnicalBulletin-MinimumOnlineCommitmentConstraint.pdf>.

or CPM capacity to meet the MOC requirement and at least two market resources defined in the MOC constraint before the CAISO will even create and utilize the MOC in the market.<sup>70</sup> If there is not sufficient resource adequacy, RMR, or CPM capacity, the CAISO will not create and utilize a MOCC in the market unless additional capacity is made available through a change in unit status or an Exceptional Dispatch CPM is made. Thus, the CAISO is not “leaning” on non-resource adequacy capacity when it commits resources to satisfy a minimum online commitment constraint because the CAISO will not even create or utilize a MOCC in the market unless there is sufficient resource adequacy capacity to meet the MOCC. If there is insufficient resource adequacy capacity, the CAISO will grant an Exceptional Dispatch CPM to any needed non-resource adequacy resources before it creates and utilizes a MOCC in the market.

**B. Resources That Have Bid Into the CAISO’s Energy and Ancillary Services Markets Voluntarily And Been Committed by the Market Software in Merit Order Should Not Be Eligible for CPM Designations**

The CAISO stresses that a resource committed by the market software to meet a MOCC has bid into the CAISO’s market voluntarily, and the market software has committed the resource in merit order.

Units the market software commits because of a MOCC should not receive a CPM designation because they voluntarily bid into the market, and the market simply accepted their bid at a quantity no higher than the quantity they bid into the market. This treatment is consistent with the existing Commission-approved CPM tariff provisions providing that if a resource has a self-schedule or market-based commitment, then the CAISO can only designate as CPM capacity the amount of capacity needed from such resource to address the reliability issue that exceeds the sum of any self-schedule and market-based commitment or dispatch of the resource.<sup>71</sup> Resources should not receive 30-day capacity

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<sup>70</sup> California ISO Operating Procedure 1210, Running the Day-Ahead Market, *available at*: <http://www.aiso.com/Documents/1210.pdf>.

<sup>71</sup> CAISO Tariff Section 43.2.5.2.2. The Commission expressly rejected arguments that capacity voluntarily bid into the market or self-scheduled should not be excluded from receiving an ICPM designation. *Cal. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,053, PP 181-82 & 191 (2008). The Commission disagreed with suppliers that a unit dispatched to provide energy to maintain reliability at a particular operating level is providing capacity services at that operating level, regardless of whether it reached that operating level entirely through Exceptional Dispatch or through a combination of market-based dispatch and Exceptional Dispatch. *Id.* The Commission also noted that subtracting self-schedules and market-bid capacity from ICPM designation offers for Exceptional Dispatch is reasonable because it would maintain proper incentives for suppliers to participate in the resource adequacy program. *Id.*

payments in addition to receiving the benefit for which they bargained, *i.e.*, the CAISO accepting their market bid.

The Commission previously also has rejected similar claims that a unit committed through the CAISO's residual unit commitment process (RUC) should receive a backstop capacity designation. In the proceeding regarding the CAISO's Interim Capacity Procurement Mechanism tariff amendment, certain generators argued that a commitment under RUC warranted an ICPM designation. The Commission rejected this argument finding that RUC is a voluntary process that allows non-resource adequacy resources to specify the price at which they are willing to provide their services.<sup>72</sup> Because a resource can specify its own price, the Commission concluded that it did not need to ensure that a resource receives some other specified level of compensation. The Commission stated that there was no precedent for providing resources committed through these processes with forward capacity compensation. Accordingly, the Commission rejected requests to provide ICPM designations to non-resource adequacy resources committed through RUC. For similar reasons, the Commission should not allow resources that voluntarily specify the price at which they are willing to provide their services in the market and are compensated at such price, to also receive a 30-day capacity payment.

The CAISO also notes that the Commission has made clear that energy and capacity markets serve different functions with separate tariffs and separate cost-based limits. Generally, compensation in capacity markets focuses on recovery of fixed costs while energy market compensation focuses on variable cost recovery. Granting a CPM designation based on bids in the CAISO's Day-Ahead market would inappropriately conflate the two markets by allowing suppliers to "shoehorn" energy market bids into 30-day capacity payments.

**C. Granting CPM Designations to Units Committed to Meet a MOCC Constraint Undermines the Existing Resource Adequacy Program and Market Fundamentals**

Granting a CPM designation to non-resource adequacy resources that are selected through the market optimization would undermine the resource adequacy program and result in duplicative capacity payments. For example, there can be sufficient available resource adequacy resources to satisfy any MOCC, but if a non-resource adequacy resource submits lower bid costs than a resource adequacy resource, then the market software would tend to commit the non-resource adequacy resource. Granting a non-resource adequacy resource a CPM designation under such circumstances would result in unnecessary and duplicative capacity payments for the month – one to the resource adequacy resource that would have addressed the need and another to the non-resource

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<sup>72</sup> *Cal. Indep. Sys. Operator Corp.*, 125 FERC ¶ 61,053, P 121 (2008).

adequacy resource that had lower energy market bid costs. The Commission should not permit market participants to utilize energy market bids as a means to obtain monthly capacity payments. Otherwise it could create the perverse incentive for non-resource adequacy resources to submit excessively low energy market bids to facilitate receipt of a 30-day capacity payment, which would significantly and inappropriately increase costs to ratepayers and undermine market fundamentals. As discussed above, the CAISO is not “leaning” on MOCCd resources because if there is insufficient resource adequacy capacity to satisfy a MOCC, the CAISO will not even establish a MOCC for the market. Instead, the CAISO provides open, non-discriminatory access and a level playing field to both resource adequacy and non-resource adequacy resources to compete based on bid-in costs.

**D. Committing a Unit to Meet a MOCC Is Not the Equivalent of Exceptionally Dispatching a Resource and Granting A CPM to a MOCCd Resource Would Be Inconsistent With the Commission’s Exceptional Dispatch Policy**

The CAISO tariff requires that the CAISO offer a CPM designation to non-resource adequacy resources that receive an Exceptional Dispatch. If committing a unit to meet a MOCC were considered analogous to an Exceptional Dispatch, then conceivably there would be an argument that a MOCCd unit merits a CPM designation. However, MOCCing a unit is different in significant respects from issuing an Exceptional Dispatch. When the CAISO Exceptionally Dispatches a resource to meet a reliability need, it manually commits/dispatches a resource outside of the market optimization software because such resource either did not submit a market bid or its market bid was “out-of-sequence,” *i.e.*, the bid would not have been selected by the market software as part of the optimization. In other words, unlike a resource that is committed because of a MOCC, an Exceptionally Dispatched resource is not cleared economically through the market software. The Commission has previously found that it is appropriate to provide a monthly capacity payment to resources that the CAISO Exceptionally Dispatches manually to respond to on-line capacity constraints that are not modeled or not fully modeled in the full network model.<sup>73</sup> Granting CPM designations to resources that were selected through the market optimization to address a MOCC would constitute an unwarranted and significant expansion of the CPM program.

Granting CPM designations to resources that have bid into the CAISO market and that the market software commits due to a MOCC would create inconsistencies with the Commission’s policy regarding Exceptional Dispatch. The Commission has made clear that Exceptional Dispatch should not be a

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<sup>73</sup> *Cal. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,150 (2009).

frequent occurrence and should be reserved for genuine circumstances where the CAISO needs to take actions manually outside of the market software to maintain system reliability.<sup>74</sup> The Commission has recognized that manual Exceptional Dispatch instructions differ from those derived from the market optimization software and that the tariff does not authorize Exceptional Dispatches when the Real-Time Market optimization software can address the condition.<sup>75</sup> Requiring a 30-day CPM designation for a constraint that is routinely addressed through the market optimization software is unwarranted and inconsistent with the rationale for granting CPM designations to Exceptionally Dispatched resources.

Finally, the CAISO again stresses that it will not utilize a MOCC unless there is both sufficient resource adequacy capacity and at least two market resources that can meet the reliability need. This ensures that a MOCC is not equivalent to an Exceptional Dispatch. These two prerequisites for a MOCC also demonstrate that the CAISO is not relying on non-resource adequacy for reliability and that, when more than one resource is available, the market is appropriately determining which resource to commit based on costs and effectiveness.

## **VII. EFFECTIVE DATE AND REQUEST FOR WAIVER**

The CAISO respectfully requests that the Commission issue an order by September 21, 2015, approving the Offer of Settlement and accepting all of the tariff revisions contained in this filing. Proposed Section 43A, and associated revisions in Sections 34, 39, 40, and Appendix A (the Master Definitions Supplement) will apply to all CPM designations effective on or after March 1, 2016. The CAISO requests an effective date of January 16, 2016, for the Section 43A tariff provisions so that it can conduct competitive solicitations in advance of any CPM designations that need to become effective on March 1, 2016.<sup>76</sup> Specifically, the initial offer period for the monthly competitive solicitation process is scheduled to start 45 days before the resource adequacy month to which it would apply. Thus, the monthly competitive solicitation process for March 2016 would actually start on January 16, 2016. Providing January 16 as the effective date for all of the new CPM tariff provisions would eliminate any ambiguity as to the CAISO's authority to administer the new CPM process before March 1, 2016, for CPM designations that would not be effective until March 1. The CAISO also proposes an effective date of January 16, 2016, for proposed revisions to Sections 43.1 and Appendix F, Schedule 6 of the CAISO tariff. These revisions

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<sup>74</sup> *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, P 267 (2006).

<sup>75</sup> *Id.* at P 266.

<sup>76</sup> The CAISO requests a March 1, 2016, effective date for the associated changes.

clarify that the existing CPM provisions will apply to all CPM designations on or before February 28, 2016.<sup>77</sup>

The CAISO proposes an effective date of March 1, 2016, for proposed revisions to Sections 34.11, 39.10.3, 39.10.4, and 40.4.6.2. The revisions in these sections constitute conforming changes needed to implement the new CPM process delineated in Section 43A. These revisions do not relate to processes the CAISO must conduct prior to the potential effective date of any CPM designations made under the new process. Additionally, making these changes effective prior to March 1 could create inconsistencies for CPM designations that are effective between January 16 and March 1.

The CAISO also requests a waiver of Section 35.3 of the Commission's Regulations, 18 C.F.R. §35.3, to allow the proposed tariff provisions to go into effect more than 120 days after this tariff amendment filing. Good cause exists for both the waiver and issuance of a Commission order by September 21, 2015. Implementation of a competitive solicitation-based CPM mechanism will require substantial systems and process changes. The CAISO needs adequate time to design, develop, implement, and test these systems and processes. Also, market participants will need time to adopt to a new CPM paradigm.

The CAISO notes that there is some linkage between this tariff amendment and the forthcoming Reliability Services Initiative tariff amendment because the CAISO will assess the availability of CPM capacity during a month using the resource adequacy availability incentive mechanism the CAISO is proposing in the Reliability Services Initiative Tariff amendment. Without the availability incentive mechanism in place, designated CPM capacity could go on an outage or otherwise not meet its must offer obligation and still receive full capacity payment. The CAISO is requesting that the Commission issue an order approving both tariff amendments by September 21, 2015.

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<sup>77</sup> At a future date after the existing Section 43 tariff provisions become moot, the CAISO will file to eliminate such provisions and renumber Section 43A as Section 43.

## **VIII. COMMUNICATIONS**

Correspondence and other communications regarding this filing should be directed to:

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## **IX. SERVICE**

The CAISO has served copies of this filing on the California Public Utilities Commission, the California Energy Commission, and all parties with Scheduling Coordinator Agreements under the CAISO tariff. In addition, the CAISO has posted a copy of the filing on the CAISO website.

## **X. CONTENTS OF FILING**

In addition to this transmittal letter, this filing includes the following attachments:

- Attachment A – Clean CAISO tariff sheets incorporating this tariff amendment.
- Attachment B – Red-lined document showing the revisions contained in this tariff amendment.
- Attachment C – Offer of Settlement and Explanatory Statement.
- Attachment D – Red-lined document showing the differences between Proposed Section 43A and existing Section 43 of the CAISO tariff.



## **XI. CONCLUSION**

For the reasons set forth in this filing, the CAISO respectfully requests that the Commission issue an order by September 21, 2015, accepting the tariff changes contained in this filing and approving the accompanying Offer of Settlement.

Respectfully submitted,

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**Attachment A – Clean Tariff Records**  
**Capacity Procurement Mechanism Revisions**  
**California Independent System Operator Corporation**

**[All sections other than 43.1 and 43A will be effective 3/1/16]**

**34.11 Exceptional Dispatch**

The CAISO may issue Exceptional Dispatches for the circumstances described in this Section 34.11, which may require the issuance of forced Shut-Downs, forced Start-Ups, or forced MSG Transitions and shall be consistent with Good Utility Practice. Dispatch Instructions issued pursuant to Exceptional Dispatches shall be entered manually by the CAISO Operator into the Day-Ahead or RTM optimization software so that they will be accounted for and included in the communication of Day-Ahead Schedules and Dispatch Instructions to Scheduling Coordinators. Exceptional Dispatches are not used to establish the LMP at the applicable PNode. The CAISO will record the circumstances that have led to the Exceptional Dispatch. When considering the issuance of an Exceptional Dispatch to RA Capacity, the CAISO shall consider the effectiveness of the resource from which the capacity is being provided, along with Start-Up Costs, Transition Costs, and Minimum Load Costs when issuing Exceptional Dispatches to commit a resource to operate at Minimum Load. When the CAISO issues Exceptional Dispatches for Energy to RA Capacity, the CAISO shall also consider Energy Bids, if available and as appropriate. Additionally, where the Exceptional Dispatch results in a CPM designation, the CAISO shall make CPM designations of Eligible Capacity for an Exceptional Dispatch by applying the criteria and procedures specified in Section 43A.4.

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**39.10.3 Eligibility For Supplemental Revenues**

Except as provided in Section 39.10.4, a resource that is committed or dispatched under Exceptional Dispatch shall be eligible for supplemental revenues only during such times that the capacity from the resource dispatched under Exceptional Dispatch is Eligible Capacity, the Eligible Capacity does not have an offer into the applicable CSP, and has declined an Exceptional Dispatch CPM designation offered under Section 43A.2.5.

#### **39.10.4 Limitation On Supplemental Revenues**

Supplemental revenues authorized under this Section 39.10 shall not exceed within a 30-day period (this 30-day period begins on the day of the first Exceptional Dispatch of the resource and re-starts on the day of the first Exceptional Dispatch of the resource following the end of any prior 30-day period) the CPM Soft Offer Cap, for which the resource would be eligible pursuant to Section 43A.7 had its Eligible Capacity been designated as CPM Capacity.

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#### **40.4.6.2 Deliverability of Imports**

##### **40.4.6.2.1 Available Import Capability Assignment Process**

For Resource Adequacy Plans covering any period after December 31, 2007, total Available Import Capability will be assigned on an annual basis for a one-year term to Scheduling Coordinators representing Load Serving Entities serving Load in the CAISO Balancing Authority Area and, in limited circumstances, to Scheduling Coordinators representing Participating Generators or System Resources, as described by the following sequence of steps. However, should the CPUC modify by decision its compliance period from January to December of the calendar year to May through April of the calendar year, the CAISO shall extend the effectiveness of the assignment for Resource Adequacy Compliance Year 2008 through April 2009.

Step 1: Determination of Maximum Import Capability on Interties into the CAISO Balancing Authority Area: The CAISO shall establish the Maximum Import Capability for each Intertie into the CAISO Balancing Authority Area, and will post those values on the CAISO Website in accordance with the schedule and process set forth in the Business Practice Manual.

Step 2: Determination of Available Import Capability by Accounting for Existing Contracts and Transmission Ownership Rights Held by Out-of- Balancing Authority Area LSEs: For each Intertie, the Available Import Capability will be determined by subtracting from the Maximum Import Capability established in Step 1 for each Intertie the import capability on each Intertie associated with (i) Existing Contracts and (ii) Transmission Ownership Rights held by load serving entities that do not serve Load within the CAISO Balancing Authority Area. The remaining sum of all Intertie Available Import Capability is the Total Import

Capability. Total Import Capability shall be used to determine the Load Share Quantity for each Load Serving Entity that serves Load within the CAISO Balancing Authority Area.

Step 3: Determination of Existing Contract Import Capability by Accounting for Existing Contracts and Transmission Ownership Rights Held by CAISO Balancing Authority Area LSEs: From the Available Import Capability remaining on each Intertie after Step 2 above, Existing Contracts and Transmission Ownership Rights held by Load Serving Entities that serve Load within the CAISO Balancing Authority Area shall be reserved for the holders of such commitments and will not be subject to reduction under any subsequent steps in this Section. The import capability reserved pursuant to this Step 3 is the Existing Contract Import Capability.

Step 4: Assignment of Pre-RA Import Commitments: From the Available Import Capability remaining on each Intertie after reserving Existing Contract Import Capability under Step 3 above, the CAISO will assign to Load Serving Entities serving Load within the CAISO Balancing Authority Area Pre-RA Import Commitment Capability on a particular Intertie based on Pre-RA Import Commitments in effect (where a supplier has an obligation to deliver the Energy or make the capacity available) at any time during the Resource Adequacy Compliance Year for which the Available Import Capability assignment is being performed. The Pre-RA Import Commitment will be assigned to the Intertie selected by the Load Serving Entity during the Resource Adequacy Compliance Year 2007 import capability assignment process, which was required to be based on the Intertie upon which the Energy or capacity from the Pre-RA Import Commitment had been primarily scheduled or, for a Pre-RA Import Commitment without a scheduling history at the time of the Resource Adequacy Compliance Year 2007 import capability assignment process, the primary Intertie upon which the Energy or capacity was anticipated to be scheduled. To the extent a Pre-RA Import Commitment was not presented during the Resource Adequacy Compliance Year 2007 import capability assignment process, the Load Serving Entity shall select the Intertie upon which the Pre-RA Import Commitment is primarily anticipated to be scheduled during the term of the Pre-RA Import Commitment and that selection shall be utilized in future annual Available Import

Capability assignment processes. If a Pre-RA Import Commitment submitted on behalf of a LSE with Existing Contract Import Capability is assigned under this Section to the same Intertie on which the LSE holds Existing Contract Import Capability, the Pre-RA Import Commitment will be assumed to deliver over the Existing Contract Import Capability until exhausted, unless the LSE can demonstrate otherwise.

To the extent a particular Intertie becomes over requested with Pre-RA Import Commitments due to either Pre-RA Import Commitments not included in the Resource Adequacy Compliance Year 2007 import capability assignment process or changes in system conditions that decrease the Maximum Import Capability of the Intertie, such that the MW represented in all Pre-RA Import Commitments utilizing the Intertie exceed the Intertie's Available Import Capability in excess of that reserved for Existing Contracts and Transmission Ownership Rights under Steps 2 and 3, the Pre-RA Import Commitments will be assigned Pre-RA Import Commitment Capability, based on the Import Capability Load Share Ratio of each Load Serving Entity submitting Pre-RA Import Commitments on the particular Intertie. To the extent this initial assignment of Pre-RA Import Commitment Capability has not fully assigned the Available Import Capability of the particular over requested Intertie, the remaining Available Import Capability on the over requested Intertie will be assigned until fully exhausted based on the Import Capability Load Share Ratio of each Load Serving Entity whose submitted Pre-RA Import Commitment has not been fully satisfied by the previous Import Capability Load Share Ratio assignment iteration. The Available Import Capability assigned pursuant to this Step 4 is the Pre-RA Import Commitment Capability.

Step 5: Assignment of Remaining Import Capability Limited by Load Share Quantity: The Total Import Capability remaining after Step 4 will be assigned only to Load Serving Entities serving Load within the CAISO Balancing Authority Area that have not received Existing Contract Import Capability and Pre-RA Import Commitment Capability under Steps 3 and 4, that exceed the Load Serving Entity's Load Share Quantity. Only the MW quantity of any Pre-RA Import Commitment Capability assigned to Existing Contract Import Capability under Step 4 that exceeds the Existing Contract Import Capability on the particular Intertie will be

counted for purposes of this Step 5. This Total Import Capability will be assigned until fully exhausted to those Load Serving Entities eligible to receive an assignment under this Step based on each Load Serving Entity's Import Capability Load Share Ratio up to, but not in excess of, its Load Share Quantity. The quantity of Total Import Capability assigned to the Load Serving Entity under this Step is the Load Serving Entity's Remaining Import Capability. This Step 5 does not assign Remaining Import Capability on a specific Intertie.

Step 6: CAISO Posting of Assigned and Unassigned Capability: Following the completion of Step 5, the CAISO will post to the CAISO Website, in accordance with the schedule set forth in the Business Practice Manual the following information:

- (a) The Total Import Capability;
- (b) The quantity in MW of Existing Contracts and Transmission Ownership Rights assigned to each Intertie, distinguishing between Existing Contracts and Transmission Ownership Rights held by Load Serving Entities within the CAISO Balancing Authority Area and those held by load serving entities outside the CAISO Balancing Authority Area;
- (c) The aggregate quantity in MW, and identity of the holders, of Pre-RA Import Commitments assigned to each Intertie; and
- (d) The aggregate quantity in MW of Available Import Capability after Step 4, the identity of the Interties with Available Import Capability, and the MW quantity of Available Import Capability on each such Intertie.

Step 7: CAISO Notification of LSE Assignment Information: Following the completion of Step 5, in accordance with the schedule set forth in the Business Practice Manual, the CAISO will notify the Scheduling Coordinator for each Load Serving Entity of:

- (a) The Load Serving Entity's Import Capability Load Share;
- (b) The Load Serving Entity's Load Share Quantity; and
- (c) The amount of, and Intertie on which, the Load Serving Entity's Existing Contract Import Capability and Pre-RA Import Commitment Capability, as applicable, has been assigned; and

(d) The Load Serving Entity's Remaining Import Capability.

Step 8: Transfer of Import Capability: In accordance with the schedule set forth in the Business Practice Manual, a Scheduling Coordinator for a Load Serving Entity shall be allowed to transfer some or all of its Remaining Import Capability to any other Scheduling Coordinator for a Load Serving Entity. The CAISO will accept transfers between Scheduling Coordinators only to the extent such transfers are reported to the CAISO, in accordance with the schedule set forth in the Business Practice Manual and through the CAISO's Import Capability Transfer Registration Process, by the entity receiving the Remaining Import Capability who must set forth (1) the name of the counter-parties, (2) the MW quantity, (3) term of transfer, and (4) price on a per MW basis. The CAISO will post to the CAISO Website by August 8, 2007 for Resource Adequacy Compliance Year 2008 and for subsequent Resource Adequacy Compliance Years in accordance with the schedule set forth in the Business Practice Manual the information on transfers of Remaining Import Capability received under this Step 8.

Step 9: Initial Scheduling Coordinator Request to Assign Remaining Import Capability by Intertie: In accordance with the schedule set forth in the Business Practice Manual, the Scheduling Coordinator for each Load Serving Entity shall notify the CAISO of its request to assign its post-trading Remaining Import Capability on a MW basis per available Intertie. Total requests for assignment of Remaining Import Capability by a Scheduling Coordinator cannot exceed the sum of the post-traded Remaining Import Capability of its Load Serving Entities. The CAISO will honor the requests to the extent an Intertie has not been over requested. If an Intertie is over requested, the requests for Remaining Import Capability on that Intertie will be assigned based on each Load Serving Entity's Import Capability Load Share Ratio in the same manner as set forth in Step 4. A Scheduling Coordinator for a Load Serving Entity without an Import Capability Load Share will be assigned the Import Capability Load Share equal to the average Import Capability Load Share of those Load Serving Entities from which it received transfers of Remaining Import Capability.



Step 10: CAISO Notification of Initial Remaining Import Capability Assignments and

Unassigned Capability: In accordance with the schedule set forth in the Business Practice Manual, the CAISO will:

- (a) Notify the Scheduling Coordinators of accepted request(s) for assigning Remaining Import Capability under Step 9;
- (b) Publish on the CAISO Website aggregate unassigned Available Import Capability, if any, the identity of the Interties with unassigned Available Import Capability, and the MW quantity of Available Import Capability, on each such Intertie; and
- (c) Issue a Market Notice to advise the Scheduling Coordinators that Step 10 is complete and to specify the time at which the CAISO will begin accepting requests for the Remaining Import Capability for Step 11.

Step 11: Secondary Scheduling Coordinator Request to Assign Remaining Import Capability

by Intertie: To the extent Remaining Import Capability remains unassigned as disclosed by Step 10, in accordance with the schedule set forth in the Business Practice Manual,

Scheduling Coordinators for Load Serving Entities shall notify the CAISO of their requests to assign any Remaining Import Capability on a MW per available Intertie basis. Step 10 must be completed before a Scheduling Coordinator may submit a request under this step for any Remaining Import Capability. Any requests received prior to the time stated in the Market Notice issued at the completion of Step 10 will not be honored by the CAISO. The CAISO will honor the timely requests received to the extent an Intertie has not been over requested.

If an Intertie is over requested, the requests on that Intertie will be assigned based on each Load Serving Entity's Import Capability Load Share Ratio, as used in Steps 4 and 9.

Step 12: Notification of Secondary Remaining Import Capability Assignments and

Unassigned Capability: In accordance with the schedule set forth in the Business Practice Manual, the CAISO will:

- (a) Notify the Scheduling Coordinator for each Load Serving Entity of the Load Serving Entity's accepted request(s) for assigning Remaining Import Capability under Step 11;
- (b) Publish on the CAISO Website unassigned aggregate Available Import Capability, if any, the identity of the Interties with Available Remaining Import Capability, and the MW quantity of Availability Import Capability on each such Intertie; and
- (c) Issue a Market Notice to advise the Scheduling Coordinator for each Load Serving Entity that Step 12 is complete and to specify the time at which the CAISO will begin accepting requests for the Balance of Year Unassigned Available Import Capability for Step 13.

Step 13: Requests for Balance of Year Unassigned Available Import Capability: To the extent total Available Import Capability remains unassigned as disclosed by Step 12, Scheduling Coordinators for Load Serving Entities, Participating Generators, or System Resources may notify the CAISO of a request for unassigned Available Import Capability on a specific Intertie on a per MW basis. Step 12 must be completed before a Scheduling Coordinator may submit a request under this step for any remaining unassigned Import Capability. Any requests received prior to the time stated in the Market Notice issued at the completion of Step 12 will not be honored by the CAISO. Each request must include the identity of Load Serving Entity, Participating Generator, or System Resource on whose behalf the request is made. The CAISO will accept only two (2) requests per calendar week from any Scheduling Coordinator on behalf of a single Load Serving Entity, Participating Generator, or System Resource. The CAISO will honor timely requests in priority of the time requests from Scheduling Coordinators were received until the Intertie is fully assigned and without regard to any Load Serving Entity's Load Share Quantity. Any honored request shall be for the remainder of the Resource Adequacy Compliance Year.

The CAISO shall provide an electronic means, either through the Import Capability Transfer Registration Process or otherwise, of notifying the Scheduling Coordinator of the time the

request was deemed received by the CAISO and, within seven (7) days of receipt of the request, whether the request was honored. If a request made on behalf of a Load Serving Entity is honored, it shall be the responsibility of the Scheduling Coordinator and its Load Serving Entity to notify the CPUC or applicable Local Regulatory Authority of the acceptance of the request for unassigned Available Import Capability. If the request is not honored because the Intertie requested was fully assigned, the request will be deemed rejected and the Scheduling Coordinator, if it still seeks to obtain unassigned Available Import Capability, will be required to submit a new request for unassigned Available Import Capability on a different Intertie. The CAISO will update on its website the list of unassigned Available Import Capability by Intertie in accordance with the schedule set forth in the Business Practice Manual.

This multi-step process for assignment of Total Import Capability does not guarantee or result in any actual transmission service being assigned and is only used for determining the import capability that can be credited towards satisfying the Reserve Margin of a Load Serving Entity under this Section 40. Upon the request of the CAISO, Scheduling Coordinators must provide the CAISO with information on Pre-RA Import Commitments and any transfers or sales of assigned Total Import Capability.

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**[Section 43.1 and all Section 43A sections will be effective 1/16/16]**

**43. Capacity Procurement Mechanism**

**43.1 Applicability**

This Section 43 shall apply to all designations of Eligible Capacity to provide CPM Capacity services under the CPM that commence prior to March 1, 2016. Designations of CPM Capacity and Flexible Capacity CPM not made through a CSP and in existence as of February 28, 2016 shall continue in effect and remain subject to the tariff provisions applicable at the time the designation of CPM Capacity or Flexible Capacity CPM was made, including the provisions concerning compensation, cost allocation and Settlement, until such time as the CPM resources have been finally compensated for their services rendered under the CPM prior to , and the CAISO has finally allocated and recovered the costs associated with such CPM compensation.

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**43A. Capacity Procurement Mechanism**

**43A.1 Applicability**

This Section 43A shall apply to all designations of Eligible Capacity to provide CPM Capacity services under the CPM that commence on or after March 1, 2016.

**43A.2 Capacity Procurement Mechanism Designation**

The CAISO shall have the authority to designate Eligible Capacity to provide CPM Capacity services under the CPM to address the following circumstances, as discussed in greater detail in Section 43A:

1. Insufficient Local Capacity Area Resources in an annual or monthly Resource Adequacy Plan;
2. Collective deficiency in Local Capacity Area Resources;
3. Insufficient Resource Adequacy Resources in an LSE's annual or monthly Resource Adequacy Plan;
4. A CPM Significant Event;
5. A reliability or operational need for an Exceptional Dispatch CPM;
6. Capacity at risk of retirement within the current RA Compliance Year that will be needed for reliability by the end of the calendar year following the current RA Compliance Year; and
7. A cumulative deficiency in the total Flexible RA Capacity included in the annual or monthly Flexible RA Capacity Plans, or in a Flexible Capacity Category in the monthly Flexible RA Capacity Plans.

**43A.2.1 SC Failure To Show Sufficient Local Capacity Area Resources**

**43A.2.1.1 Annual Resource Adequacy Plan**

Where a Scheduling Coordinator fails to demonstrate in an annual Resource Adequacy Plan, submitted separately for each represented LSE, procurement of each LSE's share of Local Capacity Area Resources, as determined in Section 40.3.2 for each month of the following

Resource Adequacy Compliance Year, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43A.2.1.1 until after the Scheduling Coordinator has had the opportunity to cure the deficiency set forth in Section 40.7. The CAISO's authority to designate CPM Capacity under this Section 43A.2.1.1 is to ensure that each Local Capacity Area in a TAC Area in which the LSE serves Load has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area.

**43A.2.1.2 Monthly Resource Adequacy Plan**

Where a Scheduling Coordinator fails to demonstrate in a monthly Resource Adequacy Plan, submitted separately for each represented LSE, procurement of each LSE's share of Local Capacity Area Resources, as determined in Section 40.3.2 for the reported month, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43A.2.1.2 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7. The CAISO's authority to designate CPM Capacity under this Section 43A.2.1.2 is to ensure that each Local Capacity Area in a TAC Area in which the LSE serves Load has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of all Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted monthly Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7.

#### **43A.2.2 Collective Deficiency In Local Capacity Area Resources**

The CAISO shall have the authority to designate CPM Capacity where the Local Capacity Area Resources specified in the annual Resource Adequacy Plans of all applicable Scheduling Coordinators, after the opportunity to cure under Section 43A.2.2.1 has been exhausted, fail to ensure compliance in one or more Local Capacity Areas with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, regardless of whether such resources satisfy, for the deficient Local Capacity Area, the minimum amount of Local Capacity Area Resources identified in the Local Capacity Technical Study, and after assessing the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area. The CAISO may, pursuant to this Section 43A.2.2, designate CPM Capacity in an amount and location sufficient to ensure compliance with the Reliability Criteria applied in the Local Capacity Technical Study.

##### **43A.2.2.1 LSE Opportunity to Resolve Collective Deficiency in Local Capacity Area Resources**

Where the CAISO determines that a need for CPM Capacity exists under Section 43A.2.2, but prior to any designation of CPM Capacity, the CAISO shall issue a Market Notice identifying the deficient Local Capacity Area and the quantity of capacity that would permit the deficient Local Capacity Area to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1 and, where only specific resources are effective to resolve the Reliability Criteria deficiency, the CAISO shall provide the identity of such resources. Any Scheduling Coordinator may submit a revised annual Resource Adequacy Plan within thirty (30) days of the beginning of the Resource Adequacy Compliance Year demonstrating procurement of additional Local Capacity Area Resources consistent with the Market Notice issued under this Section.

Any Scheduling Coordinator that provides such additional Local Capacity Area Resources consistent with the Market Notice under this Section shall have its share of any CPM procurement costs under Section 43A. 8.3 reduced on a proportionate basis. If the full quantity of capacity is

not reported to the CAISO under revised annual Resource Adequacy Plans in accordance with this Section, the CAISO may designate CPM Capacity sufficient to alleviate the deficiency.

#### **43A.2.3 SC Failure To Show Sufficient Resource Adequacy Resources**

The CAISO shall have the authority to designate CPM Capacity where a Scheduling Coordinator fails to demonstrate in an annual or monthly Resource Adequacy Plan, submitted separately for each represented LSE, procurement of sufficient Resource Adequacy Resources to comply with each LSE's annual and monthly Demand and Reserve Margin requirements under Section 40; provided that the CAISO shall not designate CPM Capacity under this Section 43A.2.3 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7; provide further that the CAISO shall not designate CPM Capacity under this Section 43A.2.3 unless there is an overall net deficiency in meeting the total annual or monthly Demand and Reserve Margin requirements, whichever is applicable, after taking into account all LSE demonstrations in their applicable or monthly Resource Adequacy Plans.

#### **43A.2.4 CPM Significant Events**

The CAISO may designate CPM Capacity to provide service on a prospective basis following a CPM Significant Event, to the extent necessary to maintain compliance with Reliability Criteria and taking into account the expected duration of the CPM Significant Event.

#### **43A.2.5 Exceptional Dispatch CPM**

The CAISO shall designate as CPM Capacity to provide service on a prospective basis the capacity of a resource that responds to an Exceptional Dispatch if the Exceptional Dispatch is issued pursuant to Section 34.11.1, subsections (6), (9) or (10) of Section 34.11.2, or Section 34.11.3, unless the Exceptional Dispatch directs the curtailment or shut down of the resource.

##### **43A.2.5.1 [Not Used]**

##### **43A.2.5.2 Quantity of Capacity included in an Exceptional Dispatch CPM Designation**

###### **43A.2.5.2.1 Exceptional Dispatch of Eligible Capacity**

If Eligible Capacity receives an Exceptional Dispatch CPM designation under Section 43A.2.5, then the CAISO shall designate as CPM Capacity the greater of the PMin of the resource providing the capacity or the quantity of capacity needed from the resource providing the capacity



(beyond whatever quantity of capacity is already Committed RA Capacity, capacity subject to a RMR Contract, or has been subject to a self-schedule or market-based commitment at the time of the Exceptional Dispatch) to address the reliability issue as determined in an engineering assessment.

For designations made in the post-day ahead timeframe, the CAISO will make an initial determination of the quantity of Exceptional Dispatch CPM Capacity and will subsequently make a post-day ahead reliability assessment of the amount of capacity needed to address the reliability issue, as set forth in the Business Practice Manuals. If the post-day ahead reliability assessment shows that no additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the resource will be compensated based on the initial quantity of Exceptional Dispatch CPM Capacity designated. If the post-day ahead reliability assessment shows that additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the CAISO will designate the incremental quantity of capacity, will treat the initial and incremental quantities of the Exceptional Dispatch CPM Capacity as a single designation effective as of the date of the initial designation, and will compensate the resource based on the sum of the initial and incremental quantities of the Exceptional Dispatch CPM Capacity for the term of the designation. Any incremental Exceptional Dispatch CPM Capacity designated under this section does not result in a new thirty (30) day term or sixty (60) - day term, as applicable.

**43A.2.5.2.2 [Not Used]**

**43A.2.5.2.3 Subsequent Exceptional Dispatch**

If the CAISO, during the term of a resource's Exceptional Dispatch CPM designation, issues a subsequent Exceptional Dispatch to the resource that exceeds the sum of the resource's CPM Capacity and RA Capacity, the subsequent Exceptional Dispatch CPM Capacity shall equal the difference between the quantity of capacity needed from the resource to address the reliability issue, as determined in an engineering assessment conducted as set forth in the Business Practice Manuals, and the sum of the resource's CPM Capacity and RA Capacity, but not to

exceed the resource's Eligible Capacity. The increase will be effective for the remainder of the initial Exceptional Dispatch CPM Term and retroactively to the beginning of the initial Exceptional Dispatch CPM Term or the first day of the month in which the increase occurs, whichever is later. Any incremental Exceptional Dispatch issued within any Exceptional Dispatch CPM Term does not result in a new 30-day term or 60-day term, as applicable. The total Exceptional Dispatch CPM Capacity shall be compensated based on the results of the Intra-monthly CSP in which the initial Exceptional Dispatch CPM Capacity was designated as CPM Capacity.

#### **43A.2.5.2.4 Change in RA, RMR or CPM Status**

If a resource has an RA, RMR or CPM Capacity obligation that pre-existed the resource's Exceptional Dispatch CPM designation and, during the term of the resource's Exceptional Dispatch CPM designation, the amount of the resource's RA, RMR or CPM Capacity is reduced, the CAISO will increase the CPM designation by the amount, if any, necessary to ensure that the sum of Exceptional Dispatch CPM designation quantity and any remaining RA Capacity is not less than PMin. If capacity that receives an Exceptional Dispatch CPM designation becomes RA Capacity or receives a monthly CPM designation or Significant Event designation or receives an RMR Contract as of a certain date, then the Exceptional Dispatch CPM designation shall be reduced by the amount of the new RA Capacity, CPM Significant Event designation, or RMR Contract from that date through the rest of the CPM designation term.

#### **43A.2.5.3 Consequences of Declining an Exceptional Dispatch CPM Designation**

If capacity that was not offered into the Intra-monthly CSP is offered an Exceptional Dispatch CPM designation and declines the designation, then the resource shall be compensated based on supplemental revenues under Sections 39.10 and 11.5.6.7.

#### **43A.2.6 Capacity At Risk Of Retirement Needed For Reliability**

The CAISO shall have the authority to designate CPM Capacity to keep a resource in operation that is at risk of retirement during the current RA Compliance Year and that will be needed for reliability by the end of the calendar year following the current RA Compliance Year. The CAISO may issue this risk of retirement CPM designation in the event that all of the following requirements apply:

- (1) the resource was not contracted as RA Capacity nor listed as RA Capacity in any LSE's annual Resource Adequacy Plan during the current RA Compliance Year;
- (2) the CAISO did not identify any deficiency, individual or collective, in an LSE's annual Resource Adequacy Plan for the current RA Compliance Year that resulted in a CPM designation for the resource in the current RA Compliance Year;
- (3) CAISO technical assessments project that the resource will be needed for reliability purposes, either for its locational or operational characteristics, by the end of the calendar year following the current RA Compliance Year;
- (4) no new generation is projected by the CAISO to be in operation by the start of the subsequent RA Compliance Year that will meet the identified reliability need;
- (5) the resource owner submits to the CAISO and DMM, at least 180 days prior to terminating the resource's PGA or removing the resource from PGA Schedule 1, a request for a CPM designation under this Section 43A.2.6 including an offer price consistent with Section 43A.4.1.1 and the affidavit of an executive officer of the company who has the legal authority to bind such entity, with the supporting financial information and documentation discussed in the BPM for Reliability Requirements, that attests that it will be uneconomic for the resource to remain in service in the current RA Compliance Year and that the decision to retire is definite unless CPM procurement occurs; and
- (6) the Scheduling Coordinator for the resource has offered all Eligible Capacity from the resource into all CSPs for the current RA year.

If the CAISO determines that all of the requirements have been met, prior to issuing the CPM designation, the CAISO shall prepare a report that explains the basis and need for the CPM designation. The CAISO shall post the report on the CAISO's Website and allow an opportunity of no less than seven (7) days for stakeholders to review and submit comments on the report and no less than thirty (30) days for an LSE to procure Capacity from the resource. If an LSE does not, within that period, procure sufficient RA Capacity to keep the resource in operation during the

current RA Compliance Year, the CAISO may issue the risk of retirement CPM designation; provided that the CAISO determines that the designation is necessary and that all other available procurement measures have failed to procure the resources needed for reliable operation. The CAISO will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs.

#### **43A.2.7 Cumulative Deficiency in Flexible RA Capacity**

- (a) **Annual Plans.** A cumulative deficiency will exist in the annual LSE Flexible RA Capacity Plans if the total amount of Flexible RA Capacity shown in the plans of all Load Serving Entities, based on the Effective Flexible Capacity value determined by the CAISO for each resource, is less than 90 percent of the annual Flexible Capacity Need determined by the CAISO pursuant to Section 40.10.1.
- (b) **Monthly Plans.** A cumulative deficiency will exist in the monthly Flexible RA Capacity Plans --
- (1) if the total amount of Flexible RA Capacity shown in the plans of all Load Serving Entities, limited on a collective basis to the maximum monthly requirement for each category and based on the Effective Flexible Capacity value determined by the CAISO for each resource, is less than the applicable monthly Flexible Capacity Need determined by the CAISO pursuant to Section 40.10.1; or
  - (2) if the total amount of Flexible RA Capacity shown in the base ramping Flexible Capacity Category in the plans of all Load Serving Entities, based on the Effective Flexible Capacity value determined by the CAISO for each resource, on a collective basis is less than the minimum monthly requirement for the base ramping Flexible Capacity Category determined by the CAISO pursuant to Section 40.10.1.4.

##### **43A.2.7.1 Final Opportunity to Resolve Deficiency**

If the processes set forth in Section 40.10.5.4, 40.10.5.5, and 40.10.5.6 do not fully resolve a deficiency or discrepancy in the annual or monthly Flexible RA Capacity Plans, and if the CAISO determines that a cumulative deficiency exists under Section 43A.2.7 and that there is a need for

Flexible Capacity CPM, but prior to issuing a Flexible Capacity CPM designation for the cumulative deficiency –

- (1) the CAISO shall (i) issue a Market Notice that describes the cumulative deficiency and specifies the quantity of Flexible RA Capacity necessary to meet the applicable Flexible Capacity Need, and (ii) notify the Load Serving Entities that are deficient and the Local Regulatory Authority with jurisdiction over each deficient Load Serving Entity;
- (2) a Scheduling Coordinator for a Load Serving Entity that is deficient, or for a Load Serving Entity subject to the jurisdiction of a Local Regulatory Authority that is deficient, may submit a revised annual or monthly Flexible RA Capacity Plan to demonstrate procurement of additional Flexible RA Capacity consistent with the Market Notice issued under this Section; but shall not include any other revisions in a plan submitted under this Section. A revised annual Flexible RA Capacity Plan must be submitted no later than December 31 for the following calendar year. A revised monthly Flexible RA Capacity Plan must be submitted no less than five days prior to the first day of the applicable month.

#### **43A.2.7.2 Designation**

After the opportunity to resolve the cumulative deficiency under Section 40.10.5.4 has been exhausted, if total required Flexible RA Capacity reported to the CAISO in revised annual or monthly Flexible RA Capacity Plans does not meet the Flexible RA Capacity Need in accordance with this Section, the CAISO may issue a Flexible Capacity CPM designation in an amount sufficient to alleviate the deficiency.

#### **43A.3 Terms Of CPM Designation**

##### **43A.3.1 SC Annual Plan Failure To Show Local Capacity Area Resources**

CPM Capacity designated under Section 43A.2.1.1 shall have a minimum commitment term of one (1) month and a maximum commitment term of one (1) year, based on the period(s) of overall shortage as reflected in the annual Resource Adequacy Plans that have been submitted.

The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

**43A.3.2 SC Month Plan Failure To Show Local Capacity Area Resources**

CPM Capacity designated under Section 43A.2.2.2 shall have a minimum commitment term of one (1) month. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

**43A.3.3 Annual Plan Collective LCA Resources Insufficient**

CPM Capacity designated under Section 43A.2.2 shall have a minimum commitment term of one (1) month and a maximum commitment term of one year, based on the period(s) of overall shortage as reflected in the annual Resource Adequacy Plans that have been submitted. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

**43A.3.4 SC Failure To Show Sufficient Resource Adequacy Resources**

CPM Capacity designated under Section 43A.2.3 shall: (a) have a minimum commitment term of one (1) month and a maximum commitment term equal to the maximum annual procurement period established by the Local Reliability Authority based on the period of the deficiency reflected in the annual Resource Adequacy Plan or (b) have a commitment term of one (1) month if the deficiency is in the monthly Resource Adequacy Plan. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

**43A.3.5 Term – CPM Significant Event**

CPM Capacity designated under Section 43A.2.4 shall have an initial term of thirty (30) days. If the CAISO determines that the CPM Significant Event is likely to extend beyond the thirty (30) day period, the CAISO may offer to extend the designation for another sixty (60) days. This offer of extension to the Scheduling Coordinator may be accepted or denied. If the Scheduling Coordinator declines an offer to extend the designation for an additional sixty (60) days, then the CAISO shall re-run the Intra-monthly CSP based on the existing offers. The Scheduling Coordinator for the resource declining an extension of the CPM designation shall be given the opportunity to provide an offer to that re-run Intra-monthly CSP, provided the offer is below the offer price at which its initial thirty (30) day designation was granted. If the Scheduling

Coordinator accepts an offer to extend the designation for an additional sixty (60) days, then the CPM Capacity shall continue to be compensated on the same terms as it was during the initial thirty (30) day designation. During this additional sixty (60) day period, the CAISO will provide Market Participants with an opportunity to provide alternative solutions to meet the CAISO's operational and reliability needs in response to the CPM Significant Event, rather than rely on the CAISO's designation of capacity under the CPM. The CAISO shall consider and implement, if acceptable to the CAISO in accordance with Good Utility Practice, such alternative solutions provided by Market Participants in a timely manner. If Market Participants do not submit any alternatives to the designation of CPM capacity that are fully effective in addressing the deficiencies in Reliability Criteria resulting from CPM Significant Event, the CAISO shall extend the term of the designation under Section 43A.2.4 for the expected duration of the CPM Significant Event.

If the solutions offered by Market Participants are only partially effective in addressing the CAISO's operational and reliability needs resulting from the CPM Significant Event, the CAISO shall extend the designation under Section 43A.2.4 for the expected duration of the CPM Significant Event, but only as to the amount of CPM Capacity necessary to satisfy the CAISO's operational and reliability needs after taking into account the effective capacity provided by the alternative solution. If there is a reasonable alternative solution that fully resolves the CAISO's operational and reliability needs, the CAISO will not extend the designation under Section 43A.2.4.

#### **43A.3.6 Term – Exceptional Dispatch CPM**

The CAISO shall make an explicit determination for each initial Exceptional Dispatch CPM designation as to whether it was necessary to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need. Exceptional Dispatch CPM Capacity designated under Section 43A.2.5 for an Exceptional Dispatch CPM System Reliability Need shall have an Exceptional Dispatch CPM Term of thirty (30) days. If the CAISO determines that the circumstances that led to the Exceptional Dispatch are likely to extend

beyond the initial thirty (30) day period, the CAISO shall issue an Exceptional Dispatch CPM or other CPM designation for an additional thirty (30) days.

Exceptional Dispatch CPM Capacity designated under Section 43A.2.5 for an Exceptional Dispatch CPM Non-System Reliability Need shall have an Exceptional Dispatch CPM Term of sixty (60) days. If the CAISO determines that the circumstances that led to the Exceptional Dispatch are likely to extend beyond the initial sixty (60) day period, the CAISO shall issue an Exceptional Dispatch CPM or other CPM designation for an additional sixty (60) days.

**43A.3.7 Term - Capacity At Risk Of Retirement Needed For Reliability**

A CPM designation for Capacity at risk of retirement under Section 43A.2.6 shall have a minimum commitment term of one (1) month and a maximum commitment term of one (1) year, based on the number of months for which the capacity is to be procured within the current RA Compliance Year. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year. The CAISO shall rescind the CPM designation for any month during which the resource is under contract with an LSE to provide RA Capacity.

**43A.3.8 Term – Flexible Capacity CPM Designation**

- (a) **Annual Plan.** A Flexible Capacity CPM designation under Section 43A.2.7 for the failure to show sufficient Flexible RA Capacity in an annual Flexible RA Capacity Plan shall have a minimum commitment term of one month and a maximum commitment term of one year, based on the period(s) of overall shortage reflected in the annual plans. The term of a Flexible Capacity CPM designation under this Section must begin and end during the same calendar year.
- (b) **Monthly Plan.** A Flexible Capacity CPM designation under Section 43A.2.7 for the failure to show sufficient Flexible RA Capacity in a monthly Flexible RA Capacity Plan shall have a commitment term of one month. The term of a Flexible Capacity CPM designation under this Section must begin and end during the same calendar month.



#### **43A.4 Selection Of Eligible Capacity Under The CPM through Competitive Solicitation Processes (CSP) and General Eligibility Rules**

In accordance with Good Utility Practice, the CAISO shall designate and compensate Eligible Capacity as CPM Capacity based on the results of either the Annual CSP, the Monthly CSP, or the Intra-monthly CSP.

The CAISO shall designate CPM Capacity through the Annual CSP to meet designations triggered under sections 43A.2.1.1, 43A.2.2, or 43A.2.3 (if the failure is to demonstrate sufficient Resource Adequacy capacity in an annual Resource Adequacy Plan), and 43A.2.7(a) (if the failure is to demonstrate sufficient Flexible Resource Adequacy capacity in an annual Flexible Resource Adequacy Plan).

The CAISO shall designate CPM Capacity through the Monthly CSP to meet designations triggered under sections 43A.2.1.2, 43A.2.3 (if the failure is to demonstrate sufficient Resource Adequacy capacity in a monthly Resource Adequacy Plan), or 43A.2.7(b) (if the failure is to demonstrate sufficient Flexible Resource Adequacy capacity in a monthly Flexible Resource Adequacy Plan).

The CAISO shall designate CPM Capacity through the Intra-monthly CSP to meet designations triggered under sections 43A.2.4 or 43A.2.5.

The selection criteria in this Section 43A.4 shall not, however, apply to making a risk-of-retirement CPM designation under Section 43A.2.6.

##### **43A.4.1 Offer Rules to the CSPs**

###### **43A.4.1.1 Price Component of a CSP Offer**

Offers of capacity to a CSP shall contain a single price denoted in units of \$/kW-month. The price offered into a CSP shall not be less than zero. Offer prices are subject to the CPM Soft Offer Cap of \$6.31/kW-month (\$75.68/kW-year). CPM Capacity shall not be compensated by the CAISO at a rate higher than the CPM Soft Offer Cap unless a Resource Owner of Eligible Capacity makes the required resource-specific cost filing with FERC pursuant to Section 43A.4.1.1.1.

#### **43A.4.1.1.1 Exceeding CPM Soft Offer Cap through a Resource-Specific Cost Filing with FERC**

A Scheduling Coordinator for a resource may offer a price in excess of the CPM Soft Offer Cap. The resource owner whose capacity is offered in excess of the CPM Soft Offer Cap must justify in a filing to FERC a price above the CPM Soft Offer Cap, which shall be determined in accordance with the methodology for determining the Annual Fixed Revenue Requirement of an RMR unit as set forth in Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. For a resource whose sales are under FERC jurisdiction that is providing CPM Capacity to be compensated at a rate higher than the CPM Soft Offer Cap, the resource owner must make a limited resource-specific filing before FERC to determine the just and reasonable capacity price for the resource as calculated per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

If the sales from the resource are not under the jurisdiction of FERC, the resource owner shall make a non-jurisdictional filing with FERC to determine the just and reasonable capacity price for the going forward costs for the resource as calculated per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

A resource owner may make a cost justification filing at FERC either before it offers a resource into the competitive solicitation process or after having capacity designated as CPM Capacity. If the resource owner has not made the cost justification filing before the capacity was designated as CPM Capacity, then the resource owner must make its cost justification filing with FERC within 30 days of the CPM designation. If the resource owner fails to make such cost justification filing within 30 days, then the CAISO shall deem the effective CPM Capacity price for the resource to be the CPM Soft Offer Cap. The resource owner may not propose – and shall not be compensated based upon – an offer price higher than the price submitted in its bid to the CAISO for the designated capacity.

A FERC-approved resource-specific CPM Capacity price shall remain in effect for the remainder of the calendar year in which it is approved and for the subsequent two calendar years, unless

superseded by a subsequent FERC-approved CPM Capacity price during that period. Although a FERC-approved resource-specific CPM Capacity price will be denoted in units of \$/kW-year, that \$/kW-year figure will be divided by 12 so that compensation will be in terms of \$/kW-month.

A resource that has obtained the appropriate FERC authorization in response to the cost justification filing described in this Section 43A.4.1.1.1 for a rate higher than the CPM Soft Offer Cap is not precluded from submitting a bid into the competitive solicitation process that is below the FERC-authorized rate and, if selected pursuant to such a bid, will be compensated based on that lower bid.

#### **43A.4.1.1.2 Periodic Updates to the CPM Soft Offer Cap**

For the purposes of this Section 43A.4.1.1.2, the reference resource shall be a merchant-constructed mid-cost, 550 MW combined cycle with duct firing or similar advanced combined cycle resource.

The CAISO shall open a stakeholder process at least every four years to consider updating the CPM Soft Offer Cap. If the CEC has posted a new draft of its Cost of Generation Study and Model (or similar study or model) that includes results for the reference resource in the forty-six months since the last draft of the Cost of Generation Study and Model (or similar study or model) was published, then the stakeholder process will commence within 10 days of that posting. If the CEC has not posted draft results within that 46-month period, then the CAISO shall commence the stakeholder process by the end of that four-year review period and administer or commission a study of the levelized going-forward fixed costs of the reference resource. The CAISO shall use its best efforts to complete the stakeholder process within six (6) months of its commencement.

The stakeholder process shall consider whether the CPM Soft Offer Cap adequately reflects 120% of the levelized going-forward fixed costs of the reference resource at the time of the stakeholder initiative. The basis of such consideration shall be the final results from the CEC Cost of Generation Study and Model (or similar study or model). If final results are not available for use in the stakeholder initiative, then the CAISO shall use published draft results. If there are no final or draft CEC study results available, then the CAISO shall use the results of a study it

administered or commissioned of the levelized going-forward fixed costs of the reference resource.

The stakeholder process also may consider, but would not reassess automatically, either what resource serves as the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20% adder to costs to set the CPM Soft Offer Cap.

If the CAISO has determined through the stakeholder initiative that the value of the CPM Soft Offer Cap warrants amendment, then, subject to any necessary action(s) by the CAISO Governing Board, the CAISO shall petition FERC under section 205 of the Federal Power Act to change the CPM Soft Offer Cap.

If the CAISO, through that section 205 filing, does not alter either the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20% adder to costs to set the CPM Soft Offer Cap, then any party that wishes to challenge the CAISO's retention of those elements of the CPM Soft Offer Cap shall bear the burden of showing that maintaining the unaltered element would be unjust, unreasonable, unduly discriminatory or preferential, or otherwise contrary to law.

#### **43A.4.1.2 Quantity Component of a CSP Offer**

Offers to a CSP shall contain a single quantity denoted in units of kW-month representing the quantity of capacity being offered as RA Capacity and a single quantity denoted in units of kW-month representing the quantity of capacity being offered as Flexible RA Capacity. The entire quantity of capacity included in a Scheduling Coordinator's offer must be capacity over which the Scheduling Coordinator either: (1) holds ownership or contractual rights to offer into a CSP; or (2) has been authorized to offer into a CSP by the entity that holds ownership or contractual rights to that capacity.

The quantity of capacity offered into a CSP from a generating resource located outside the CAISO Balancing Authority Area shall not exceed the lesser of: (1) the Pmax of the resource providing the capacity; and (2) the allocated import capability held by the Scheduling Coordinator of the resource less any capacity of the resource that is Committed RA Capacity for the term

covered by the CSP to which the capacity has been offered. If an offer is for both Flexible Capacity and RA Capacity and the resource receives an annual or monthly CPM designation for one type of capacity, then in any following CSPs that overlap in time with the CPM designation, the CAISO, on behalf of the resource, automatically will offer the non-designated type of RA capacity into the overlapping CSP(s) at \$0/kW-month up to the minimum of the amount available as non-RA capacity and the amount of capacity originally designated.

#### **43A.4.1.3 Exception to Offer Rules for Annual CSP – Different Prices for Different Months**

A Scheduling Coordinator for Eligible Capacity may offer into the Annual CSP varying prices in the form of \$/kW-month for different months of the Annual CSP if the Scheduling Coordinator wishes the CAISO to consider varying offer prices for individual months in the Annual CSP.

#### **43A.4.2 Administering the CSPs**

##### **43A.4.2.1 Identifying Effective Resources**

In making a CPM designation the CAISO shall first establish the minimum criteria needed to meet the requirements for the type of CPM to be issued to resolve the underlying reliability need. The CAISO shall then identify all resources with offers into the CSP that can meet the minimum criteria. In determining whether a particular resource can meet the minimum criteria, the CAISO shall consider how any known or scheduled outages on the resource during the potential CPM designation period would impact the resource's ability to meet the minimum criteria.

If there is insufficient capacity offered into the CSP to meet the minimum designation criteria, then the CAISO shall evaluate whether any Eligible Capacity not offered into the CSP would allow the CAISO to meet the minimum designation criteria. If the CAISO must designate capacity not offered in to the CSP to meet the minimum designation criteria, then for the purposes of operating the CSP, the CAISO shall consider the offer price for any such capacity to be the CPM Soft Offer Cap. A resource whose capacity was not offered into the CSP but nevertheless is deemed necessary to meet the minimum designation criteria shall have the option to request from FERC a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1 or, in the case of a

potential Exceptional Dispatch CPM, the resource's Scheduling Coordinator may decline the CPM designation and be paid under the supplemental revenues option pursuant to Section 39.10. In the event that there is insufficient capacity to meet the minimum designation criteria from both resources offered into the CSP and resources not offered into the CSP, then the CAISO may reassess and lower the minimum criteria.

#### **43A.4.2.2 Minimizing the Overall Cost of Meeting the Reliability Need**

Once the CAISO has identified the pool of resources that can meet the designation criteria, the CAISO shall then designate Eligible Capacity from that pool of resources in order to minimize the overall cost of meeting the designation criteria. Aside from considering the respective offer prices from the Eligible Capacity, as part of this cost minimization the CAISO also may consider: the quantity of a resource's available Eligible Capacity, based on a resource's PMin, relative to the remaining amount of capacity needed; and the quantity of a resource's available Eligible Capacity, based on outages and replacement or substitute daily RA Capacity.

For a potential Exceptional Dispatch CPM, the CAISO also shall consider the overall costs to the CAISO of issuing the Exceptional Dispatch to RA Capacity rather than to Eligible Capacity. If the CAISO determines it would minimize overall costs to issue the Exceptional Dispatch to RA Capacity, then the CAISO shall issue the Exceptional Dispatch to RA Capacity and not designate Eligible Capacity as CPM Capacity to meet the designation criteria.

If capacity would receive a CPM designation based on the cost minimization criteria but the resource from which the capacity would be provided faces use limitations such that the capacity, in the CAISO's reasonable discretion, poses the risk of being unavailable to fully meet the reliability need creating the CPM event, then the CAISO may, at its reasonable discretion and giving due regard for meeting cost minimization considerations, not grant that capacity a CPM designation and instead grant the designation to the next-best capacity at meeting the CAISO cost minimization process defined in this Section 43A.4.2.2. In exercising this discretion, the CAISO shall not unduly discriminate against resources with use limitations.

Additionally, if capacity would receive a CPM designation based on the cost minimization criteria but the resource from which the capacity would be provided is already going to be RA Capacity at

some point during the CPM designation period and, in the CAISO's reasonable discretion, poses the risk of the capacity being unavailable fully to meet the reliability need creating the need for a CPM designation, then the CAISO may, at its reasonable discretion and giving due regard for meeting cost minimization considerations, not grant that capacity a CPM designation and instead grant the designation to the next-best capacity at meeting the CAISO cost minimization process defined in this Section 43A.4.2.2.

#### **43A.4.2.3 Additional Permissible Considerations**

In either the Annual CSP or Monthly CSP, if two or more offers would meet the cost minimization criteria identified in Section 43A.4.2.2 equally, then the CAISO shall grant the designation in its discretion based on criteria A and B, below. In the Intra-monthly CSP, if two or more offers are within 10% of each other in terms of total cost to designate the capacity, then the CAISO shall grant the designation in its discretion based on criteria A and B, below.

Criterion A – Relative effectiveness of the resources in meeting local and/or zonal constraints or other ISO system needs.

Criterion B – Relative operating characteristics of the resources, including dispatchability, ramp rate, and load-following capability.

#### **43A.4.2.4 Timeline and Procedures for Annual CSP**

The CAISO shall conduct an initial offer period for the Annual CSP and an offer adjustment period for the Annual CSP according to the schedules published in the Business Practice Manual.

During the Annual CSP initial offer period Scheduling Coordinators shall have the opportunity to submit offers to the Annual CSP. Scheduling Coordinators submitting offers in the Annual CSP initial offer period that do not conform with the offer rules defined in Section 43A.4.1 shall have the opportunity to resubmit offers during the Annual CSP initial offer period.

During the Annual CSP offer adjustment period, Scheduling Coordinators have the option to remove capacity that was offered in the Annual CSP initial offer period or lower the offer price of capacity that was offered in the Annual CSP initial offer period. If an offer is withdrawn during the Annual CSP offer adjustment period, the Scheduling Coordinator for Eligible Capacity must

provide a reason for the withdrawal. This information will be used by the CAISO for tracking and market evaluation purposes only.

After the Annual CSP offer adjustment period closes, the CAISO shall validate that capacity offered in the Annual CSP from a given resource is not on a Resource Adequacy Plan in any applicable month of the annual RA showing. As long as a resource has sufficient capacity between the relevant NQC or EFC and the amount shown on any Resource Adequacy Plan for any day for which it potentially would hold a CPM designation, this capacity is eligible to participate in the CSP. Upon completion of the validation process offers to the CSP cannot be removed or altered until after the Annual CSP is complete.

#### **43A.4.2.5                      Timeline and Procedures for Monthly CSP**

The CAISO shall conduct an initial offer period for the Monthly CSP and an offer adjustment period for the Monthly CSP according to the schedules published in the Business Practice Manual.

During the Monthly CSP initial offer period Scheduling Coordinators shall have the opportunity to submit offers to the Monthly CSP. Scheduling Coordinators submitting offers in the Monthly CSP initial offer period that do not conform with the offer rules defined in Section 43A.4.1 shall have the opportunity to resubmit offers during the Monthly CSP initial offer period.

During the Monthly CSP offer adjustment period, Scheduling Coordinators have the option to remove capacity that was offered in the Monthly CSP initial offer period or lower the offer price of capacity that was offered in the Monthly CSP initial offer period. If an offer is withdrawn during the Monthly CSP offer adjustment period, the Scheduling Coordinator for Eligible Capacity must provide a reason for the withdrawal. This information will be used by the CAISO for tracking and market evaluation purposes only.

After the Monthly CSP offer adjustment period closes, the CAISO shall validate that capacity offered in the Monthly CSP from a given resource is not Committed RA Capacity for that month. As long as a resource has sufficient capacity between the relevant NQC or EFC and the Committed RA Capacity amount for any day for which it potentially would hold a CPM designation, this capacity is eligible to participate in the CSP. The Monthly CSP validation



process shall not validate whether the resource was or was not shown with overlapping capacity in an Annual Resource Adequacy Plan. Upon completion of the validation process offers to the CSP cannot be removed or altered until after the Monthly CSP is complete.

#### **43A.4.2.6                      Timeline and Procedures for Intra-monthly CSP**

The CAISO shall conduct an offer period for the Intra-monthly CSP according to the schedule published in the Business Practice Manual.

During the Intra-monthly CSP offer period Scheduling Coordinators shall have the opportunity to submit offers to the Intra-monthly CSP. Scheduling Coordinators submitting offers in the Intra-monthly CSP offer period that do not conform with the offer rules defined in Section 43A.4.1 shall have the opportunity to resubmit offers during the Intra-monthly CSP offer period.

After the Intra-monthly CSP offer period closes Scheduling Coordinators have the option to remove capacity that was offered in the Intra-monthly CSP offer period or lower the offer price of capacity that was offered in the Intra-monthly CSP offer period.

After the Intra-monthly CSP offer period closes, on a day that an Exceptional Dispatch CPM or Significant Event CPM would be made, any offers in the system will be locked through the assessment and designation period. The CAISO shall validate that capacity offered in the Intra-monthly CSP from a given resource is not Committed RA Capacity on the day that the CPM designation would begin. Where an Intra-monthly CSP would be conducted to grant an Exceptional Dispatch CPM, the offer price for any capacity offered from a resource that currently has Exceptional Dispatch CPM Capacity will be the offer price at which the existing Exceptional Dispatch CPM was granted. The CAISO will only grant an intra-monthly CPM to capacity that is not Committed RA Capacity on the day that the CPM designation would begin.

If an Exceptional Dispatch CPM is offered to a resource whose Scheduling Coordinator did not submit an offer to the Intra-monthly CSP, then the scheduling coordinator for that resource has 24 hours to reject the designation. If the resource rejects the designation, then the CAISO shall settle payments to the resource's Scheduling Coordinator under the supplemental revenues option per Section 39.10.

**43A.4.3 Designation Amount.** While the CAISO does not have to designate the full capability of a resource, the CAISO may designate under the CPM an amount of CPM Capacity from a resource that exceeds the amount of capacity identified to ensure compliance with the Reliability Criteria set forth in Section 40.3 due to the PMin or other operational requirements/limits of a resource that has available capacity to provide CPM service. The CAISO shall not designate the capacity of a resource for an amount of capacity that is less than the resource's PMin.

**43A.4.3.1 Simultaneous Designations.** In the event the CAISO determines that a CPM designation must be issued to resolve a collective deficiency of system RA Capacity under Section 43A.2.3 and that a Flexible Capacity CPM designation must be issued to resolve a cumulative deficiency of Flexible RA Capacity under Section 43A.2.7 for annual or monthly plans covering the same or overlapping time periods, the CAISO will apply the criteria in Section 43A.4.2 and endeavor to designate capacity that will be effective in resolving both underlying reliability needs –

- (1) If the MW amount of the simultaneous or overlapping designation is sufficient to resolve both underlying reliability needs, no further designation of CPM Capacity will be issued.
- (2) If the MW amount of the simultaneous or overlapping designation is not sufficient to resolve both underlying reliability needs, the CAISO may designate additional CPM Capacity to cover the remaining deficiency.

#### **43A.5 Obligations Of A Resource Designated Under The CPM**

##### **43A.5.1 Availability Obligations.**

CPM Capacity shall be subject to all of the availability, dispatch, testing, reporting, verification and any other applicable requirements imposed under Section 40.6 or Section 40.10.6 as applicable to Resource Adequacy Resources identified in Resource Adequacy Plans and Flexible RA Capacity resources identified in Resource Flexible RA Capacity Plans. In accordance with those requirements, CPM Capacity designated under the CPM shall meet the Day-Ahead availability

requirements specified in Section 40.6.1 and the Real-Time availability requirements of Section 40.6.2, and Flexible Capacity CPM shall meet the Day-Ahead and Real-Time availability requirements specified in Section 40.10.6.1. Also in accordance with those requirements, Generating Units designated under the CPM that meet the definition of Short Start Units shall have the obligation to meet the additional availability requirements of Section 40.6.3, and Generating Units designated under the CPM that meet the definition of Long Start Units will have the rights and obligations specified in Section 40.6.7.1.

If the CAISO has not received an Economic Bid or a Self-Schedule for CPM Capacity, the CAISO shall utilize a Generated Bid in accordance with the procedures specified in Section 40.6.8. In addition to Energy Bids, resources designated under the CPM shall submit Ancillary Service Bids for their CPM Capacity to the extent that the resource is certified to provide the Ancillary Service.

#### **43A.5.2 Obligation To Provide Capacity And Termination**

The decision to accept a designation as CPM Capacity shall be voluntary for the Scheduling Coordinator for any resource. If the Scheduling Coordinator for a resource accepts a CPM designation, it shall be obligated to perform for the full quantity and full period of the designation with respect to the amount of CPM Capacity for which it has accepted a CPM designation. If the Scheduling Coordinator for a resource accepts a Flexible Capacity CPM designation, the resource shall be obligated to perform for the full quantity and full period of the designation, subject to the must-offer obligation in Section 40.10.6 that applies to the Flexible Capacity Category of the resource that was designated. If a Participating Generator's or Participating Load's Eligible Capacity is designated under the CPM after the Participating Generator or Participating Load has filed notice to terminate its Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement or withdraw the Eligible Capacity from its Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement, and the Scheduling Coordinator for the resource agrees to provide service under the CPM, then the Scheduling Coordinator shall enter into a new Participating Generator Agreement,

Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement, as applicable, with the CAISO.

**43A.5.3 Availability Obligations for Simultaneous Designations.**

To the extent a resource accepts simultaneous or overlapping designations as CPM Capacity and Flexible Capacity CPM under Section 43A.4.3, that resource shall be subject to the must-offer obligations for both designations.

**43A.5.4 Individualized Non-Availability Charges And Availability Incentive Payments**

Capacity accepting a designation as CPM Capacity will face a resource-specific Availability Incentive Mechanism Price under section 40.9.6. The resource-specific price will be the higher of: (a) the price that the resource was paid by the CAISO (\$/kW-month) as a result of receiving the designation; and (b) the RA Availability Incentive Mechanism rate. Availability Incentive Mechanism payments to a resource designated under the CPM will be capped at the general Availability Incentive Mechanism rate.

For a resource requesting a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use that resource-specific CPM capacity price for calculating the Availability Incentive Mechanism only if that resource-specific CPM capacity price has been approved in time for inclusion on the Recalculation Settlement Statement T+55B. Otherwise, for resources that have sought a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use the CPM Soft Offer Cap price for calculating the Availability Incentive Mechanism price.

**43A.6 Reports**

The CAISO shall publish the following reports and notices.

**43A.6.1 CPM Designation Market Notice**

The CAISO shall issue a Market Notice within two (2) Business Days of a CPM designation under Sections 43A.2.1 through 43A.2.6. CPM designations as a result of Exceptional Dispatches shall be subject to the reporting requirement set forth in Section 34.9.4. The Market Notice shall include a preliminary description of what caused the CPM designation, the name of the resource(s) procured, the preliminary expected duration of the CPM designation, the initial

designation period, and an indication that a designation report is being prepared in accordance with Section 43A.6.2. For Exceptional Dispatch CPM designations, the market notice shall additionally indicate whether the designation was made to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need, specify the quantity of the Exceptional Dispatch CPM capacity that was procured and the Exceptional Dispatch CPM Term, and identify the engineering assessment the CAISO used to determine the quantity of capacity needed from the resource to address the reliability issue.

#### **43A.6.2 Designation Of A Resource Under The CPM**

The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under Sections 43A.2.1 through 43A.2.6 or ten (10) days after the end of the month. The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or CPM Significant Event), and an explanation of why it was necessary for the CAISO to utilize the CPM authority);
- (2) The following information would be reported for all backstop designations:
  - (a) the resource name;
  - (b) the amount of CPM Capacity or Flexible Capacity CPM designated (MW),
  - (c) an explanation of why that amount of CPM Capacity or Flexible Capacity CPM was designated,
  - (d) the date CPM Capacity was designated,
  - (e) the duration of the designation; and
  - (f) the accepted offer price of the resource, or if the resource has a request pending with FERC to exceed the CPM Soft Offer Cap, then the CPM Soft Offer Cap along with a notation that the

resource has a pending request with FERC to be compensated above the CPM Soft Offer Cap.

- (3) If the reason for the designation is a CPM Significant Event, the CAISO will also include:
  - (a) a discussion of the event or events that have occurred, why the CAISO has procured CPM Capacity, and how much has been procured;
  - (b) an assessment of the expected duration of the CPM Significant Event;
  - (c) the duration of the initial designation (thirty (30) days); and
  - (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.
- (4) If the reason for the designation is Exceptional Dispatch CPM Capacity, the CAISO will also include additional information about the CAISO's determination of the quantity and term of the designation, which supplements the information included in the market notice issued pursuant to Section 43A.6.1.

#### **43A.6.3 Non-Market And Repeated Market Commitment Of Non-RA Capacity**

Within ten (10) calendar days after the end of each month, the CAISO shall post a report to the CAISO Website that identifies for the prior month:

- (1) Any non-market commitments of non-Resource Adequacy Capacity (irrespective of whether the capacity comes from a resource that has no Resource Adequacy obligation or has a pre-existing partial Resource Adequacy commitment); and
- (2) All market commitments of non-Resource Adequacy Capacity.

The CAISO will provide a Market Notice of the availability of this report. The report will not include commitments of RMR Generation capacity, Resource Adequacy Capacity or designated CPM Capacity. The report shall include the following information:

- (a) the name of the resource;
- (b) the IOU Service Area and Local Capacity Area (if applicable);
- (c) the maximum capacity committed in response to the event (MW);
- (d) how capacity was procured (for example, by RUC or Exceptional Dispatch);
- (e) the reason capacity was committed; and
- (f) information as to whether or not all Resource Adequacy Resources and previously-designated CPM Capacity were used first and, if not, why they were not.

#### **43A.6.4 Publication of Offers Submitted to the Competitive Solicitation Process**

The CAISO shall publish all final offers into a CSP on a rolling quarterly basis with a five-quarter-delay. Published information shall include: (a) technology or fuel type of the resource; (b) kW-month of capacity offered; (c) for Annual and Monthly CSPs, capacity type offered (*i.e.*, flexible, RA, or both); (d) CSP into which the capacity was offered; and (e) flexible capacity category, if applicable. Published information shall not include the identity of the party offering capacity into a CSP. If fewer than three resources of a particular technology or fuel type have offered into a CSP, then the CAISO shall consolidate reporting for multiple technology or fuel types.

#### **43A.7 Payments To Capacity Designated Under The CPM**

##### **43A.7.1. Calculation of Monthly CPM Capacity Payment**

Scheduling Coordinators representing resources receiving payment for a CPM designation shall receive a monthly CPM Capacity Payment for each month of CPM designation equal to the product of the kW-month of designated CPM Capacity and the CPM Capacity price per kW-month (based on the capacity's CSP bid, the CPM Soft Offer Cap, or the resource-specific CPM rate authorized by FERC, as applicable), with a deduction pro-rated for days the capacity was Committed RA Capacity other than CPM Capacity. Provided, however, that CPM Capacity

designated to respond to a CPM Significant Event or an Exceptional Dispatch CPM shall receive payment based proportionately on the actual number of days the resource was designated as CPM Capacity during the month to the total number of days in the month.

#### **43A.7.2 Payments For Overlapping CPM Designations to the Same Resource**

For the purpose of this Section 43A.7.2, a MW of capacity holds an overlapping obligation if that MW has a flexible RA obligation and another form of RA obligation. If a resource accepts separate CPM designations resulting in overlapping obligations, then the MW amount of the CPM capacity payments for the period the designations overlap shall be the higher of: (a) the higher MW amount of either designation; or (b) the quantity of Flexible Capacity CPM plus the quantity of capacity, if any, below the resource's PMin that is ineligible to count toward the resource's EFC per Section 40.10.4.1(a)(1). The resource shall not be provided with two CPM payments for the same capacity.

#### **43A.7.3 Market Payments**

In addition to the CPM Capacity Payment identified in Section 43A.7, CPM resources, including Flexible Capacity CPM resources, shall be entitled to retain any revenues received as a result of their selection in the CAISO Markets, provided, however, that CPM resources required to participate in the RUC process will be optimized using a zero (\$0) dollar RUC Availability Bid and are not eligible to receive compensation through the RUC process.

#### **43A.8 Allocation Of CPM Capacity Payment Costs**

For each month, the CAISO shall allocate the costs of CPM Capacity Payments made pursuant to Section 43A.7 as follows:

##### **43A.8.1 LSE Shortage Of Local Capacity Area Resources In Annual Plan**

If the CAISO makes CPM designations under Section 43A.2.1.1 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its annual Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE based on the ratio of its Local Capacity Area Resource



Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area. The Local Capacity Area Resource Deficiency under this Section shall be computed on a monthly basis and the CPM Capacity Payments allocated based on deficiencies during the month(s) covered by the CPM designation(s).

**43A.8.2 LSE Shortage Of Local Capacity Area Resources In Month Plan**

If the CAISO makes CPM designations under Section 43A.2.1.2 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its monthly Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area.

**43A.8.3 Collective Deficiency In Local Capacity Area Resources**

If the CAISO makes designations under Section 43A.2.2 the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs serving Load in the TAC Area(s) in which the deficient Local Capacity Area was located. The allocation will be based on the Scheduling Coordinators' proportionate share of Load in such TAC Area(s) as determined in accordance with Section 40.3.2, excluding Scheduling Coordinators for LSEs that procured additional capacity in accordance with Section 43A.2.1.2 on a proportionate basis, to the extent of their additional procurement.

**43A.8.4 LSE Shortage Of Demand Or Reserve Margin Requirement In Plan**

If the CAISO makes CPM designations under Section 43A.2.3, then the CAISO will allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each LSE based on the proportion of its deficiency to the aggregate deficiency.

#### **43A.8.5 Allocation Of CPM Significant Event Costs**

If the CAISO makes any CPM Significant Event designations under Section 43A.2.4, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the CPM Significant Event caused or threatened to cause a failure to meet Reliability Criteria based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

#### **43A.8.6 Allocation Of Exceptional Dispatch CPMs**

If the CAISO makes any Exceptional Dispatch CPM designations under Section 43A.2.5, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the Exceptional Dispatch CPM arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

#### **43A.8.7 Allocation of CPM Costs For Resources At Risk of Retirement**

If the CAISO makes any CPM designations under Section 43A.2.6 for resources at risk of retirement needed for reliability, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the CPM designation arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

#### **43A.8.8 Allocation of Flexible Capacity CPM Costs**

- (a) Calculation of Deficiency by LRA.
  - (1) The CAISO will determine whether each Local Regulatory Authority met its allocable share of the Flexible Capacity Need based on the cumulative amount of Flexible RA Capacity that Local Regulatory Authority's jurisdictional Load Serving Entities included in their annual and

monthly Flexible RA Capacity Plans in total, and included in their monthly Flexible RA Capacity Plans for each Flexible Capacity Category.

(2) The CAISO will calculate the total amount of Flexible RA Capacity included in the annual and monthly Flexible RA Capacity Plans collectively for all Load Serving Entities within the Local Regulatory Authority, and the total amount included in the monthly Flexible RA Capacity Plans for each Flexible Capacity Category using the minimum or maximum quantity, as applicable, for each category, and using the Effective Flexible Capacity value calculated under Section 40.10.4 for each resource designated in a plan as a Flexible RA Capacity Resource.

(b) **Allocation By CAISO Method.**

(1) If the amount of Flexible RA Capacity the jurisdictional Load Serving Entities included in their annual Flexible RA Capacity Plans or monthly Flexible RA Capacity Plans, in total and in each Flexible Capacity Category, meets or exceeds the applicable Flexible Capacity Need allocated to their Local Regulatory Authority, the CAISO will not allocate any of the Flexible Capacity CPM costs to the Scheduling Coordinators for those Load Serving Entities.

(2) If the amount of Flexible RA Capacity the jurisdictional Load Serving Entities included in their annual Flexible RA Capacity Plans or monthly Flexible RA Capacity Plans, either in total or for a Flexible Capacity Category, is less than the applicable Flexible Capacity Need allocated to their Local Regulatory Authority, and that Local Authority has not established its own methodology for allocating the Flexible Capacity Need to its jurisdictional Load Serving Entities, the CAISO will allocate the Flexible Capacity CPM costs proportionately to the Scheduling Coordinator of each jurisdictional Load Serving Entity that failed to meet its procurement obligation.

(c) **Allocation by Local Regulatory Authority Method.** If Load Serving Entities jurisdictional to a Local Regulatory Authority have a cumulative deficiency under Section 43A.8.8(a) and the Local Regulatory Authority has established its own methodology for allocating the Flexible Capacity Need to its jurisdictional Load Serving Entities, the CAISO will use the Local Regulatory Authority's methodology to allocate the Flexible Capacity CPM costs to the

Scheduling Coordinator of each Load Serving Entity that is jurisdictional to that Local Regulatory Authority and that failed to meet its procurement obligation.

(d) **Reduction of Cost Allocation.** If the CAISO issues a Flexible Capacity CPM designation, a Scheduling Coordinator for a Load Serving Entity that was deficient, but provided additional Flexible RA Capacity in a revised annual or monthly Flexible RA Capacity Plan consistent with the Market Notice under Section 43A.2.7.1 --

(1) will be not be allocated a share of the Flexible Capacity CPM procurement costs if the additional Flexible RA Capacity included in that LSE's revised LSE Flexible RA Capacity Plan resolved the total deficiency of that Load Serving Entity; or

(2) will be allocated a share of the Flexible Capacity CPM procurement costs on a proportionate basis to the extent that Load Serving Entity has a remaining partial deficiency.

#### **43A.9 Crediting Of CPM Capacity**

The CAISO shall credit CPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entities as follows:

(a) To the extent the cost of CPM designation under Section 43A.2.1.1 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.1, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards (1) the LSE's Local Capacity Area Resource obligation under Section 40.3.2 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1 and (2) the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1.

(b) To the extent the cost of CAISO designation under Section 43A.2.2 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.3, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's

Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.2.

- (c) To the extent the cost of CPM designation under Section 43A.2.3 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.4, and the designation is for greater than one month under Section 43A.3.4, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.3.
- (d) To the extent the cost of CPM designation under Section 43A.2.6 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.7, and the designation is for greater than one month under Section 43A.3.7, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.6.
- (e) The credit provided in this Section shall be used for determining the need for the additional designation of CPM Capacity under Section 43A.2 and for allocation of CPM costs under Section 43A.8.
- (f) For each Scheduling Coordinator that is provided credit pursuant to this Section, the CAISO shall provide information, including the quantity of capacity procured in MW, necessary to allow the CPUC, other Local Regulatory Authority, or federal agency with jurisdiction over the LSE on whose behalf the credit was provided to determine whether the LSE

should receive credit toward its resource adequacy requirements adopted by such agencies or authorities.

- (g) To the extent the cost of Flexible Capacity CPM designation under Section 43A.2.7 is allocated to a Scheduling Coordinator for an LSE under Section 43A.8.8, and the designation is for greater than one month under Section 43A.3.8, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Flexible Capacity requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the Flexible Capacity CPM designated under Section 43A.2.7.

**43A.10**

**[Not Used]**

\* \* \*

[All sections other than 43.1 and 43A will be effective 3/1/16]

## Appendix A

### Master Definition Supplement

#### - Committed RA Capacity

Capacity that is either RA Capacity, Flexible RA Capacity, RA Substitute Capacity, RA Replacement Capacity, CPM Capacity, or Flexible Capacity CPM.

\* \* \*

#### - Competitive Solicitation Process (CSP)

One of the Competitive Solicitation Processes, as set forth in Section 43A.4.

\* \* \*

#### - CPM Capacity

Capacity of Generating Units, System Units, System Resources, PDR or Participating Load that is designated under the CPM in accordance with Section 43 during the term of the designation. Flexible Capacity CPM is one form of CPM Capacity.

#### - CPM Capacity Payment

The payment provided pursuant to Section 43A.6 or 43A.7.

\* \* \*

#### - CPM Soft Offer Cap

A capacity price of \$6.31/kW-month (\$75.68/kW-year), as described in Section 43A.4.1.1.

\* \* \*

#### - Eligible Capacity

Capacity of Generating Units, System Units, System Resources, PDRs, or Participating Loads that, on any day for which it potentially would hold a CPM designation, is not Committed RA Capacity and not under an RMR Contract. Capacity offered to a CSP will have its status as

Eligible Capacity validated by the CAISO after close of the Annual CSP offer adjustment period, Monthly CSP offer adjustment period, and Intra-monthly CSP offer period for the Annual CSP, Monthly CSP, and Intra-monthly CSP, respectively. Capacity on, or scheduled to be on, a Forced Outage, Approved Maintenance Outage, or de-rate, is not operationally available and, for the duration of that unavailability, shall not be Eligible Capacity for purposes of potentially receiving a CPM Capacity designation.

\* \* \*

#### **- Flexible Capacity CPM**

Flexible Capacity designated under the Capacity Procurement Mechanism, for the term of the designation. Flexible Capacity CPM is a subset of CPM Capacity

\* \* \*

#### **- Resource Adequacy Capacity or RA Capacity**

The supply capacity of a Resource Adequacy Resource listed on a Resource Adequacy Plan and a Supply Plan. Upon receiving a designation as CPM Capacity, that designated capacity becomes RA Capacity for the duration of its designation as CPM Capacity.

\* \* \*

## **Appendix F Rate Schedules**

### **Schedule 6**

#### **CPM SCHEDULES FOR CPM DESIGNATIONS UNDER SECTION 43.**

##### **Monthly CPM Capacity Payment**

The monthly CPM Capacity Payment shall be calculated by multiplying the monthly shaping factor of 1/12 by the annual effective fixed CPM Capacity price per kW-year in accordance with Section 43.7.1, unless the Scheduling Coordinator for the CPM Capacity resource has agreed to another price that has been determined in accordance with Section 43.7.2.

##### **Availability**

The target availability for a resource designated under CPM is 95%. Incentives and penalties for availability above and below the target are as set forth in the table below, entitled "Availability Factor Table." The CAISO shall calculate availability on a monthly basis using actual availability



data. The CPM Availability Factor for Forced Outages for each month shall be calculated using the following curve:

**AVAILABILITY FACTOR TABLE**

<b>Availability</b>	<b>Capacity Payment Factor</b>	<b>CPM Availability Factor</b>
100%	3.3%	1.139
99%	3.3%	1.106
98%	3.3%	1.073
97%	2.5%	1.040
96%	1.5%	1.015
95%	-	1.000
94%	-1.5%	.985
93%	-1.5%	.970
92%	-1.5%	.955
91%	-1.5%	.940
90%	-1.5%	.925
89-80%	-1.7%*	.908-.755
79-41%	-1.9%*	.736-.014
-40%	-	0.0

\*The "Capacity Payment Factor" decreases by 1.7% and 1.9% respectively for every 1% decrease in availability.

The CPM Capacity Payment shall be adjusted upward from the 95% availability starting point by the positive percentages listed as the "Capacity Payment Factor" above, by multiplication by the amounts listed for each CPM Availability Factor above 95%, so that, for example, if a 97% availability is achieved for the month, then the CPM Capacity Payment for that month would be the monthly value for 95% plus an additional 4% (1.5% for the first percent availability above 95%, and 2.5% for the second percent availability above 95%), i.e., multiplication of the otherwise applicable CPM Capacity Payment by the CPM Availability Factor of 1.040. Reductions in the CPM Capacity Payment shall be made correspondingly according to the "Capacity Payment Factor" above for monthly availability levels falling short of the 95% availability starting point, by multiplication by the amounts listed for each CPM Availability Factor below 95%.

**Attachment B – Marked Tariff Records**  
**Capacity Procurement Mechanism Revisions**  
**California Independent System Operator Corporation**

[All sections other than 43.1 and 43A will be effective 3/1/16]

### 34.11 Exceptional Dispatch

The CAISO may issue Exceptional Dispatches for the circumstances described in this Section 34.11, which may require the issuance of forced Shut-Downs, forced Start-Ups, or forced MSG Transitions and shall be consistent with Good Utility Practice. Dispatch Instructions issued pursuant to Exceptional Dispatches shall be entered manually by the CAISO Operator into the Day-Ahead or RTM optimization software so that they will be accounted for and included in the communication of Day-Ahead Schedules and Dispatch Instructions to Scheduling Coordinators.

Exceptional Dispatches are not ~~derived through the use of the IFM or RTM optimization software and are not~~ used to establish the LMP at the applicable PNode. The CAISO will record the circumstances that have led to the Exceptional Dispatch. When considering the issuance of an Exceptional Dispatch to RA Capacity~~Except as provided in this Section 34.11,~~ the CAISO shall consider the effectiveness of the resource from which the capacity is being provided, along with Start-Up Costs, Transition Costs, and Minimum Load Costs when issuing Exceptional Dispatches to commit a resource to operate at Minimum Load. When the CAISO issues Exceptional

Dispatches for Energy to RA Capacity, the CAISO shall also consider Energy Bids, if available and as appropriate. Additionally, where the Exceptional Dispatch results in a CPM designation, ~~In accordance with Good Utility Practice,~~ the CAISO shall make CPM designations of Eligible Capacity for an Exceptional Dispatch by applying the criteria and procedures specified in Section 43A.4. ~~the following additional criteria in the order listed:~~

- ~~(1) — the effectiveness of the Eligible Capacity at meeting the designation criteria specified in Section 43.2;~~
- ~~(2) — the capacity costs associated with the Eligible Capacity;~~
- ~~(3) — the quantity of a resource's available Eligible Capacity, based on a resource's PMin, relative to the remaining amount of capacity needed;~~
- ~~(4) — the operating characteristics of the resource, such as dispatchability, Ramp Rate, and load following capability; and~~
- ~~(5) — whether the resource is subject to restrictions as a Use-Limited Resource.~~

~~In applying these selection criteria, the goal of the CAISO will be to issue Exceptional Dispatches on a least-cost basis to resources that will be effective in meeting the reliability needs underlying the Exceptional Dispatches. In making this determination, the CAISO will apply the first criterion to identify the effective Eligible Capacity by considering the effectiveness of the resources at meeting the designation criteria for the Exceptional Dispatch and at resolving the underlying reliability need. The CAISO will apply the second criterion by considering the cost of the effective Eligible Capacity. The CAISO will endeavor to Exceptionally Dispatch a resource at the CPM Capacity price determined in accordance with Section 43.6.1 before selecting a resource with a higher unit-specific CPM Capacity price specified under Section 43.6.2. The CAISO will endeavor to Exceptionally Dispatch resources that have specified a capacity price before designating resources that have not specified a CPM Capacity price under Section 43.6.2.1. The CAISO will apply the third criterion by considering the quantity of a resource's Eligible Capacity. The CAISO will endeavor to select a resource that has a PMin at or below the capacity that is needed to meet the reliability need before selecting a resource that has a PMin that would result in over-procurement. The CAISO will apply the fourth criterion by considering specific operating characteristics of a resource, such as dispatchability, ramp rate, and load-following capability to the extent that such characteristics are an important factor in resolving the reliability need. The CAISO will apply the fifth criterion by considering whether a resource is use-limited and whether that status may restrict its ability to be available to the CAISO in the Day-Ahead Market and Real-Time Market throughout the period for which it is being procured. To the extent that use-limited resources are capable of performing the required service for the duration of the Exceptional Dispatch, the CAISO will not unduly discriminate in favor of non-Use Limited resources when applying the selection criteria. Imbalance Energy delivered or consumed pursuant to the various types of Exceptional Dispatch is settled according to the provisions in Section 11.5.6.~~

\* \* \*

### 39.10.3 Eligibility For Supplemental Revenues

Except as provided in Section 39.10.4, a resource that is committed or dispatched under Exceptional Dispatch shall be eligible for supplemental revenues only during such times that the

~~capacity from the resource dispatched under Exceptional Dispatch is Eligible Capacity, the Eligible Capacity does not have an offer into the applicable CSP, and has declined an Exceptional Dispatch CPM designation offered under Section 43A.2.5. resource meets all of the following criteria:~~

- ~~(i) — the resource has notified the CAISO, at least seven days prior to the calendar month in which the Exceptional Dispatch occurs, that the resource has chosen to receive supplemental revenues in lieu of an Exceptional Dispatch CPM designation under Section 43.1.5;~~
- ~~(ii) — the resource has been mitigated under Section 39.10;~~
- ~~(iii) — the resource is not under an RMR Contract, is not designated as CPM Capacity, and is not a Resource Adequacy Resource, unless the resource is a Partial Resource Adequacy Resource or a partial CPM resource, and the Exceptional Dispatch requires non-RA Capacity or non-CPM Capacity, in which case only the capacity not committed as Resource Adequacy Capacity or CPM Capacity is eligible for supplemental revenues; and~~
- ~~(iv) — the resource has a Bid in the IFM and RTM for the applicable Operating Day or Operating Hour in which the resource is committed or dispatched under Exceptional Dispatch.~~

### 39.10.4 Limitation On Supplemental Revenues

Supplemental revenues authorized under this Section 39.10 shall not exceed within a 30-day period (this 30-day period begins on the day of the first Exceptional Dispatch of the resource and re-starts on the day of the first Exceptional Dispatch of the resource following the end of any prior 30-day period) the ~~difference between any monthly CPM Capacity Payments due the resource for the 30-day period (calculated according to the ratio of the actual number of days that the resource had capacity designated as CPM Capacity during the 30-day period to the total number of days in the month) and the monthly CPM Capacity Payment~~ CPM Soft Offer Cap, without any CPM Availability Factor adjustment, for which the resource would be eligible pursuant to Section 43A.6

~~7 had its Eligible Capacity been designated as CPM Capacity, entire capacity less any Resource Adequacy Capacity been designated as an CPM resource.~~

\* \* \*

#### **40.4.6.2 Deliverability of Imports**

##### **40.4.6.2.1 Available Import Capability Assignment Process**

For Resource Adequacy Plans covering any period after December 31, 2007, total Available Import Capability will be assigned on an annual basis for a one-year term to Scheduling Coordinators representing Load Serving Entities serving Load in the CAISO Balancing Authority Area and, in limited circumstances, to Scheduling Coordinators representing Participating Generators or System Resources ~~other Market Participants through their respective Scheduling Coordinators~~, as described by the following sequence of steps. However, should the CPUC modify by decision its compliance period from January to December of the calendar year to May through April of the calendar year, the CAISO shall extend the effectiveness of the assignment for Resource Adequacy Compliance Year 2008 through April 2009.

Step 1: Determination of Maximum Import Capability on Interties into the CAISO Balancing Authority Area: The CAISO shall establish the Maximum Import Capability for each Intertie into the CAISO Balancing Authority Area, and will post those values on the CAISO Website in accordance with the schedule and process set forth in the Business Practice Manual.

Step 2: Determination of Available Import Capability by Accounting for Existing Contracts and Transmission Ownership Rights Held by Out-of- Balancing Authority Area LSEs: For each Intertie, the Available Import Capability will be determined by subtracting from the Maximum Import Capability established in Step 1 for each Intertie the import capability on each Intertie associated with (i) Existing Contracts and (ii) Transmission Ownership Rights held by load serving entities that do not serve Load within the CAISO Balancing Authority Area. The remaining sum of all Intertie Available Import Capability is the Total Import Capability. Total Import Capability shall be used to determine the Load Share Quantity for each Load Serving Entity that serves Load within the CAISO Balancing Authority Area.

Step 3: Determination of Existing Contract Import Capability by Accounting for Existing Contracts and Transmission Ownership Rights Held by CAISO Balancing Authority Area LSEs: From the Available Import Capability remaining on each Intertie after Step 2 above, Existing Contracts and Transmission Ownership Rights held by Load Serving Entities that serve Load within the CAISO Balancing Authority Area shall be reserved for the holders of such commitments and will not be subject to reduction under any subsequent steps in this Section. The import capability reserved pursuant to this Step 3 is the Existing Contract Import Capability.

Step 4: Assignment of Pre-RA Import Commitments: From the Available Import Capability remaining on each Intertie after reserving Existing Contract Import Capability under Step 3 above, the CAISO will assign to Load Serving Entities serving Load within the CAISO Balancing Authority Area Pre-RA Import Commitment Capability on a particular Intertie based on Pre-RA Import Commitments in effect (where a supplier has an obligation to deliver the Energy or make the capacity available) at any time during the Resource Adequacy Compliance Year for which the Available Import Capability assignment is being performed. The Pre-RA Import Commitment will be assigned to the Intertie selected by the Load Serving Entity during the Resource Adequacy Compliance Year 2007 import capability assignment process, which was required to be based on the Intertie upon which the Energy or capacity from the Pre-RA Import Commitment had been primarily scheduled or, for a Pre-RA Import Commitment without a scheduling history at the time of the Resource Adequacy Compliance Year 2007 import capability assignment process, the primary Intertie upon which the Energy or capacity was anticipated to be scheduled. To the extent a Pre-RA Import Commitment was not presented during the Resource Adequacy Compliance Year 2007 import capability assignment process, the Load Serving Entity shall select the Intertie upon which the Pre-RA Import Commitment is primarily anticipated to be scheduled during the term of the Pre-RA Import Commitment and that selection shall be utilized in future annual Available Import Capability assignment processes. If a Pre-RA Import Commitment submitted on behalf of a LSE with Existing Contract Import Capability is assigned under this Section to the same

Intertie on which the LSE holds Existing Contract Import Capability, the Pre-RA Import Commitment will be assumed to deliver over the Existing Contract Import Capability until exhausted, unless the LSE can demonstrate otherwise.

To the extent a particular Intertie becomes over requested with Pre-RA Import Commitments due to either Pre-RA Import Commitments not included in the Resource Adequacy Compliance Year 2007 import capability assignment process or changes in system conditions that decrease the Maximum Import Capability of the Intertie, such that the MW represented in all Pre-RA Import Commitments utilizing the Intertie exceed the Intertie's Available Import Capability in excess of that reserved for Existing Contracts and Transmission Ownership Rights under Steps 2 and 3, the Pre-RA Import Commitments will be assigned Pre-RA Import Commitment Capability, based on the Import Capability Load Share Ratio of each Load Serving Entity submitting Pre-RA Import Commitments on the particular Intertie. To the extent this initial assignment of Pre-RA Import Commitment Capability has not fully assigned the Available Import Capability of the particular over requested Intertie, the remaining Available Import Capability on the over requested Intertie will be assigned until fully exhausted based on the Import Capability Load Share Ratio of each Load Serving Entity whose submitted Pre-RA Import Commitment has not been fully satisfied by the previous Import Capability Load Share Ratio assignment iteration. The Available Import Capability assigned pursuant to this Step 4 is the Pre-RA Import Commitment Capability.

Step 5: Assignment of Remaining Import Capability Limited by Load Share Quantity: The Total Import Capability remaining after Step 4 will be assigned only to Load Serving Entities serving Load within the CAISO Balancing Authority Area that have not received Existing Contract Import Capability and Pre-RA Import Commitment Capability under Steps 3 and 4, that exceed the Load Serving Entity's Load Share Quantity. Only the MW quantity of any Pre-RA Import Commitment Capability assigned to Existing Contract Import Capability under Step 4 that exceeds the Existing Contract Import Capability on the particular Intertie will be counted for purposes of this Step 5. This Total Import Capability will be assigned until fully exhausted to those Load Serving Entities eligible to receive an assignment under this Step



based on each Load Serving Entity's Import Capability Load Share Ratio up to, but not in excess of, its Load Share Quantity. The quantity of Total Import Capability assigned to the Load Serving Entity under this Step is the Load Serving Entity's Remaining Import Capability. This Step 5 does not assign Remaining Import Capability on a specific Intertie.

Step 6: CAISO Posting of Assigned and Unassigned Capability: Following the completion of Step 5, the CAISO will post to the CAISO Website, in accordance with the schedule set forth in the Business Practice Manual the following information:

- (a) The Total Import Capability;
- (b) The quantity in MW of Existing Contracts and Transmission Ownership Rights assigned to each Intertie, distinguishing between Existing Contracts and Transmission Ownership Rights held by Load Serving Entities within the CAISO Balancing Authority Area and those held by load serving entities outside the CAISO Balancing Authority Area;
- (c) The aggregate quantity in MW, and identity of the holders, of Pre-RA Import Commitments assigned to each Intertie; and
- (d) The aggregate quantity in MW of Available Import Capability after Step 4, the identity of the Interties with Available Import Capability, and the MW quantity of Available Import Capability on each such Intertie.

Step 7: CAISO Notification of LSE Assignment Information: Following the completion of Step 5, in accordance with the schedule set forth in the Business Practice Manual, the CAISO will notify the Scheduling Coordinator for each Load Serving Entity of:

- (a) The Load Serving Entity's Import Capability Load Share;
- (b) The Load Serving Entity's Load Share Quantity; and
- (c) The amount of, and Intertie on which, the Load Serving Entity's Existing Contract Import Capability and Pre-RA Import Commitment Capability, as applicable, has been assigned; and
- (d) The Load Serving Entity's Remaining Import Capability.

Step 8: Transfer of Import Capability: In accordance with the schedule set forth in the Business Practice Manual, a Scheduling Coordinator for a Load Serving Entity shall be allowed to transfer some or all of its Remaining Import Capability to any other Scheduling Coordinator for a Load Serving Entity ~~or Market Participant~~. The CAISO will accept transfers ~~among LSEs and Market Participants~~ between Scheduling Coordinators only to the extent such transfers are reported to the CAISO, in accordance with the schedule set forth in the Business Practice Manual and through the CAISO's Import Capability Transfer Registration Process, by the entity receiving the Remaining Import Capability who must set forth (1) the name of the counter-parties, (2) the MW quantity, (3) term of transfer, and (4) price on a per MW basis. The CAISO will post to the CAISO Website by August 8, 2007 for Resource Adequacy Compliance Year 2008 and for subsequent Resource Adequacy Compliance Years in accordance with the schedule set forth in the Business Practice Manual the information on transfers of Remaining Import Capability received under this Step 8.

Step 9: Initial Scheduling Coordinator Request to Assign Remaining Import Capability by Intertie: In accordance with the schedule set forth in the Business Practice Manual, the Scheduling Coordinator for each Load Serving Entity ~~or Market Participant~~ shall notify the CAISO of its request to assign its post-trading Remaining Import Capability on a MW basis per available Intertie. Total requests for assignment of Remaining Import Capability by a Scheduling Coordinator cannot exceed the sum of the post-traded Remaining Import Capability of its Load Serving Entities. The CAISO will honor the requests to the extent an Intertie has not been over requested. If an Intertie is over requested, the requests for Remaining Import Capability on that Intertie will be assigned based on each Load Serving Entity's Import Capability Load Share Ratio in the same manner as set forth in Step 4. A ~~Market Participant~~ Scheduling Coordinator for a Load Serving Entity without an Import Capability Load Share will be assigned the Import Capability Load Share equal to the average Import Capability Load Share of those Load Serving Entities from which it received transfers of Remaining Import Capability.

Step 10: CAISO Notification of Initial Remaining Import Capability Assignments and Unassigned Capability: In accordance with the schedule set forth in the Business Practice Manual, the CAISO will:

- (a) Notify the Scheduling Coordinators ~~for each Load Serving Entity or Market Participant of the Load Serving Entity or Market Participant's of~~ accepted request(s) for assigning Remaining Import Capability under Step 9;
- (b) Publish on the CAISO Website aggregate unassigned Available Import Capability, if any, the identity of the Interties with unassigned Available Import Capability, and the MW quantity of Available Import Capability, on each such Intertie; and
- (c) Issue a Market Notice to advise the Scheduling Coordinators ~~for each Load Serving Entity or Market Participant~~ that Step 10 is complete and to specify the time at which the CAISO will begin accepting requests for the Remaining Import Capability for Step 11.

Step 11: Secondary Scheduling Coordinator Request to Assign Remaining Import Capability by Intertie: To the extent Remaining Import Capability remains unassigned as disclosed by Step 10, in accordance with the schedule set forth in the Business Practice Manual, Scheduling Coordinators for Load Serving Entities ~~or Market Participants~~ shall notify the CAISO of their requests to assign any Remaining Import Capability on a MW per available Intertie basis. Step 10 must be completed before a Scheduling Coordinator may submit a request under this step for any Remaining Import Capability. Any requests received prior to the time stated in the Market Notice issued at the completion of Step 10 will not be honored by the CAISO. The CAISO will honor the timely requests received to the extent an Intertie has not been over requested. If an Intertie is over requested, the requests on that Intertie will be assigned based on each Load Serving Entity ~~or Market Participant's~~ Import Capability Load Share Ratio, as used in Steps 4 and 9.

Step 12: Notification of Secondary Remaining Import Capability Assignments and

Unassigned Capability: In accordance with the schedule set forth in the Business Practice Manual, the CAISO will:

- (a) Notify the Scheduling Coordinator for each Load Serving Entity ~~or Market Participant~~ of the Load Serving Entity ~~or Market Participant~~'s accepted request(s) for assigning Remaining Import Capability under Step 11;
- (b) Publish on the CAISO Website unassigned aggregate Available Import Capability, if any, the identity of the Interties with Available Remaining Import Capability, and the MW quantity of Availability Import Capability on each such Intertie; and
- (c) Issue a Market Notice to advise the Scheduling Coordinator for each Load Serving Entity ~~or Market Participant~~ that Step 12 is complete and to specify the time at which the CAISO will begin accepting requests for the Balance of Year Unassigned Available Import Capability for Step 13.

Step 13: Requests for Balance of Year Unassigned Available Import Capability: To the extent total Available Import Capability remains unassigned as disclosed by Step 12,

Scheduling Coordinators for Load Serving Entities, ~~or Market Participants~~ Participating Generators, or System Resources may notify the CAISO of a request for unassigned

Available Import Capability on a specific Intertie on a per MW basis. Step 12 must be completed before a Scheduling Coordinator may submit a request under this step for any remaining unassigned Import Capability. Any requests received prior to the time stated in the Market Notice issued at the completion of Step 12 will not be honored by the CAISO. Each request must include the identity of Load Serving Entity, Participating Generator, or System Resource ~~or Market Participant~~, on whose behalf the request is made. The CAISO will accept only two (2) requests per calendar week from any Scheduling Coordinator on behalf of a single Load Serving Entity, Participating Generator, or System Resource ~~or other Market Participant~~. The CAISO will honor timely requests in priority of the time requests from Scheduling Coordinators were received until the Intertie is fully assigned and without regard

to any Load Serving Entity's Load Share Quantity. Any honored request shall be for the remainder of the Resource Adequacy Compliance Year; ~~however, any notification by the CAISO of acceptance of the request in accordance with this Section after the 20th calendar day of any month shall not be permitted to be included in the Load Serving Entity's Resource Adequacy Plan submitted in the same month as the acceptance.~~

The CAISO shall provide an electronic means, either through the Import Capability Transfer Registration Process or otherwise, of notifying the Scheduling Coordinator of the time the request was deemed received by the CAISO and, within seven (7) days of receipt of the request, whether the request was honored. If a request made on behalf of a Load Serving Entity is honored, it shall be the responsibility of the Scheduling Coordinator and its Load Serving Entity to notify the CPUC or applicable Local Regulatory Authority of the acceptance of the request for unassigned Available Import Capability. If the request is not honored because the Intertie requested was fully assigned, the request will be deemed rejected and the Scheduling Coordinator, if it still seeks to obtain unassigned Available Import Capability, will be required to submit a new request for unassigned Available Import Capability on a different Intertie. The CAISO will update on its website the list of unassigned Available Import Capability by Intertie in accordance with the schedule set forth in the Business Practice Manual.

This multi-step process for assignment of Total Import Capability does not guarantee or result in any actual transmission service being assigned and is only used for determining the import capability that can be credited towards satisfying the Reserve Margin of a Load Serving Entity under this Section 40. Upon the request of the CAISO, Scheduling Coordinators must provide the CAISO with information on Pre-RA Import Commitments and any transfers or sales of assigned Total Import Capability.

\* \* \*

[Section 43.1 and all Section 43A sections will be effective 1/16/16]

43. Capacity Procurement Mechanism

43.1 ~~[Not Used]~~ Applicability

~~43.1.1 Capacity Procurement Mechanism Expiration~~

~~This Section 43 shall apply to all designations of Eligible Capacity to provide CPM Capacity services under the CPM that commence prior to March 1, 2016. The CPM as well as changes made to other Sections to implement the CPM shall expire at midnight on the last day of the forty-eighth month following the effective date of this Section. Designations of CPM Capacity and Flexible Capacity CPM designations not made through a CSP and in existence as of February 28, 2016 on the expiration date shall continue in effect and remain subject to the tariff provisions applicable at the time the designation of CPM Capacity or Flexible Capacity CPM was made, including the provisions concerning compensation, cost allocation and Settlement, until such time as the CPM resources have been finally compensated for their services rendered under the CPM prior to the termination of the CPM, and the CAISO has finally allocated and recovered the costs associated with such CPM compensation. This Section shall also apply to the Flexible Capacity CPM provisions in Section 43 and any Flexible Capacity CPM designations in existence on the expiration date.~~

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## **43A. Capacity Procurement Mechanism**

### **43A.1 Applicability**

This Section 43A shall apply to all designations of Eligible Capacity to provide CPM Capacity services under the CPM that commence on or after March 1, 2016.

### **43A.2 Capacity Procurement Mechanism Designation**

The CAISO shall have the authority to designate Eligible Capacity to provide CPM Capacity services under the CPM to address the following circumstances, as discussed in greater detail in Section 43A:

1. Insufficient Local Capacity Area Resources in an annual or monthly Resource Adequacy Plan;
2. Collective deficiency in Local Capacity Area Resources;
3. Insufficient Resource Adequacy Resources in an LSE's annual or monthly Resource Adequacy Plan;
4. A CPM Significant Event;
5. A reliability or operational need for an Exceptional Dispatch CPM;
6. Capacity at risk of retirement within the current RA Compliance Year that will be needed for reliability by the end of the calendar year following the current RA Compliance Year; and
7. A cumulative deficiency in the total Flexible RA Capacity included in the annual or monthly Flexible RA Capacity Plans, or in a Flexible Capacity Category in the monthly Flexible RA Capacity Plans.

#### **43A.2.1 SC Failure To Show Sufficient Local Capacity Area Resources**

##### **43A.2.1.1 Annual Resource Adequacy Plan**

Where a Scheduling Coordinator fails to demonstrate in an annual Resource Adequacy Plan, submitted separately for each represented LSE, procurement of each LSE's share of Local Capacity Area Resources, as determined in Section 40.3.2 for each month of the following

Resource Adequacy Compliance Year, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43A.2.1.1 until after the Scheduling Coordinator has had the opportunity to cure the deficiency set forth in Section 40.7. The CAISO's authority to designate CPM Capacity under this Section 43A.2.1.1 is to ensure that each Local Capacity Area in a TAC Area in which the LSE serves Load has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area.

**43A.2.1.2 Monthly Resource Adequacy Plan**

Where a Scheduling Coordinator fails to demonstrate in a monthly Resource Adequacy Plan, submitted separately for each represented LSE, procurement of each LSE's share of Local Capacity Area Resources, as determined in Section 40.3.2 for the reported month, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43A.2.1.2 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7. The CAISO's authority to designate CPM Capacity under this Section 43A.2.1.2 is to ensure that each Local Capacity Area in a TAC Area in which the LSE serves Load has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of all Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted monthly Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7.



#### **43A.2.2 Collective Deficiency In Local Capacity Area Resources**

The CAISO shall have the authority to designate CPM Capacity where the Local Capacity Area Resources specified in the annual Resource Adequacy Plans of all applicable Scheduling Coordinators, after the opportunity to cure under Section 43A.2.2.1 has been exhausted, fail to ensure compliance in one or more Local Capacity Areas with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, regardless of whether such resources satisfy, for the deficient Local Capacity Area, the minimum amount of Local Capacity Area Resources identified in the Local Capacity Technical Study, and after assessing the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area. The CAISO may, pursuant to this Section 43A.2.2, designate CPM Capacity in an amount and location sufficient to ensure compliance with the Reliability Criteria applied in the Local Capacity Technical Study.

#### **43A.2.2.1 LSE Opportunity to Resolve Collective Deficiency in Local Capacity Area Resources**

Where the CAISO determines that a need for CPM Capacity exists under Section 43A.2.2, but prior to any designation of CPM Capacity, the CAISO shall issue a Market Notice identifying the deficient Local Capacity Area and the quantity of capacity that would permit the deficient Local Capacity Area to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1 and, where only specific resources are effective to resolve the Reliability Criteria deficiency, the CAISO shall provide the identity of such resources. Any Scheduling Coordinator may submit a revised annual Resource Adequacy Plan within thirty (30) days of the beginning of the Resource Adequacy Compliance Year demonstrating procurement of additional Local Capacity Area Resources consistent with the Market Notice issued under this Section. Any Scheduling Coordinator that provides such additional Local Capacity Area Resources consistent with the Market Notice under this Section shall have its share of any CPM procurement costs under Section 43A. 8.3 reduced on a proportionate basis. If the full quantity of capacity is

not reported to the CAISO under revised annual Resource Adequacy Plans in accordance with this Section, the CAISO may designate CPM Capacity sufficient to alleviate the deficiency.

#### **43A.2.3 SC Failure To Show Sufficient Resource Adequacy Resources**

The CAISO shall have the authority to designate CPM Capacity where a Scheduling Coordinator fails to demonstrate in an annual or monthly Resource Adequacy Plan, submitted separately for each represented LSE, procurement of sufficient Resource Adequacy Resources to comply with each LSE's annual and monthly Demand and Reserve Margin requirements under Section 40; provided that the CAISO shall not designate CPM Capacity under this Section 43A.2.3 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7; provide further that the CAISO shall not designate CPM Capacity under this Section 43A.2.3 unless there is an overall net deficiency in meeting the total annual or monthly Demand and Reserve Margin requirements, whichever is applicable, after taking into account all LSE demonstrations in their applicable or monthly Resource Adequacy Plans.

#### **43A.2.4 CPM Significant Events**

The CAISO may designate CPM Capacity to provide service on a prospective basis following a CPM Significant Event, to the extent necessary to maintain compliance with Reliability Criteria and taking into account the expected duration of the CPM Significant Event.

#### **43A.2.5 Exceptional Dispatch CPM**

The CAISO shall designate as CPM Capacity to provide service on a prospective basis the capacity of a resource that responds to an Exceptional Dispatch if the Exceptional Dispatch is issued pursuant to Section 34.11.1, subsections (6), (9) or (10) of Section 34.11.2, or Section 34.11.3, unless the Exceptional Dispatch directs the curtailment or shut down of the resource.

##### **43A.2.5.1 [Not Used]**

##### **43A.2.5.2 Quantity of Capacity included in an Exceptional Dispatch CPM Designation**

###### **43A.2.5.2.1 Exceptional Dispatch of Eligible Capacity**

If Eligible Capacity receives an Exceptional Dispatch CPM designation under Section 43A.2.5, then the CAISO shall designate as CPM Capacity the greater of the PMin of the resource providing the capacity or the quantity of capacity needed from the resource providing the capacity

(beyond whatever quantity of capacity is already Committed RA Capacity, capacity subject to a RMR Contract, or has been subject to a self-schedule or market-based commitment at the time of the Exceptional Dispatch) to address the reliability issue as determined in an engineering assessment.

For designations made in the post-day ahead timeframe, the CAISO will make an initial determination of the quantity of Exceptional Dispatch CPM Capacity and will subsequently make a post-day ahead reliability assessment of the amount of capacity needed to address the reliability issue, as set forth in the Business Practice Manuals. If the post-day ahead reliability assessment shows that no additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the resource will be compensated based on the initial quantity of Exceptional Dispatch CPM Capacity designated. If the post-day ahead reliability assessment shows that additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the CAISO will designate the incremental quantity of capacity, will treat the initial and incremental quantities of the Exceptional Dispatch CPM Capacity as a single designation effective as of the date of the initial designation, and will compensate the resource based on the sum of the initial and incremental quantities of the Exceptional Dispatch CPM Capacity for the term of the designation. Any incremental Exceptional Dispatch CPM Capacity designated under this section does not result in a new thirty (30) day term or sixty (60) - day term, as applicable.

#### **43A.2.5.2.2 [Not Used]**

#### **43A.2.5.2.3 Subsequent Exceptional Dispatch**

If the CAISO, during the term of a resource's Exceptional Dispatch CPM designation, issues a subsequent Exceptional Dispatch to the resource that exceeds the sum of the resource's CPM Capacity and RA Capacity, the subsequent Exceptional Dispatch CPM Capacity shall equal the difference between the quantity of capacity needed from the resource to address the reliability issue, as determined in an engineering assessment conducted as set forth in the Business Practice Manuals, and the sum of the resource's CPM Capacity and RA Capacity, but not to

exceed the resource's Eligible Capacity. The increase will be effective for the remainder of the initial Exceptional Dispatch CPM Term and retroactively to the beginning of the initial Exceptional Dispatch CPM Term or the first day of the month in which the increase occurs, whichever is later. Any incremental Exceptional Dispatch issued within any Exceptional Dispatch CPM Term does not result in a new 30-day term or 60-day term, as applicable. The total Exceptional Dispatch CPM Capacity shall be compensated based on the results of the Intra-monthly CSP in which the initial Exceptional Dispatch CPM Capacity was designated as CPM Capacity.

#### **43A.2.5.2.4 Change in RA, RMR or CPM Status**

If a resource has an RA, RMR or CPM Capacity obligation that pre-existed the resource's Exceptional Dispatch CPM designation and, during the term of the resource's Exceptional Dispatch CPM designation, the amount of the resource's RA, RMR or CPM Capacity is reduced, the CAISO will increase the CPM designation by the amount, if any, necessary to ensure that the sum of Exceptional Dispatch CPM designation quantity and any remaining RA Capacity is not less than PMin. If capacity that receives an Exceptional Dispatch CPM designation becomes RA Capacity or receives a monthly CPM designation or Significant Event designation or receives an RMR Contract as of a certain date, then the Exceptional Dispatch CPM designation shall be reduced by the amount of the new RA Capacity, CPM Significant Event designation, or RMR Contract from that date through the rest of the CPM designation term.

#### **43A.2.5.3 Consequences of Declining an Exceptional Dispatch CPM Designation**

If capacity that was not offered into the Intra-monthly CSP is offered an Exceptional Dispatch CPM designation and declines the designation, then the resource shall be compensated based on supplemental revenues under Sections 39.10 and 11.5.6.7.

#### **43A.2.6 Capacity At Risk Of Retirement Needed For Reliability**

The CAISO shall have the authority to designate CPM Capacity to keep a resource in operation that is at risk of retirement during the current RA Compliance Year and that will be needed for reliability by the end of the calendar year following the current RA Compliance Year. The CAISO may issue this risk of retirement CPM designation in the event that all of the following requirements apply:

- (1) the resource was not contracted as RA Capacity nor listed as RA Capacity in any LSE's annual Resource Adequacy Plan during the current RA Compliance Year;
- (2) the CAISO did not identify any deficiency, individual or collective, in an LSE's annual Resource Adequacy Plan for the current RA Compliance Year that resulted in a CPM designation for the resource in the current RA Compliance Year;
- (3) CAISO technical assessments project that the resource will be needed for reliability purposes, either for its locational or operational characteristics, by the end of the calendar year following the current RA Compliance Year;
- (4) no new generation is projected by the CAISO to be in operation by the start of the subsequent RA Compliance Year that will meet the identified reliability need;
- (5) the resource owner submits to the CAISO and DMM, at least 180 days prior to terminating the resource's PGA or removing the resource from PGA Schedule 1, a request for a CPM designation under this Section 43A.2.6 including an offer price consistent with Section 43A.4.1.1 and the affidavit of an executive officer of the company who has the legal authority to bind such entity, with the supporting financial information and documentation discussed in the BPM for Reliability Requirements, that attests that it will be uneconomic for the resource to remain in service in the current RA Compliance Year and that the decision to retire is definite unless CPM procurement occurs; and
- (6) the Scheduling Coordinator for the resource has offered all Eligible Capacity from the resource into all CSPs for the current RA year.

If the CAISO determines that all of the requirements have been met, prior to issuing the CPM designation, the CAISO shall prepare a report that explains the basis and need for the CPM designation. The CAISO shall post the report on the CAISO's Website and allow an opportunity of no less than seven (7) days for stakeholders to review and submit comments on the report and no less than thirty (30) days for an LSE to procure Capacity from the resource. If an LSE does not, within that period, procure sufficient RA Capacity to keep the resource in operation during the

current RA Compliance Year, the CAISO may issue the risk of retirement CPM designation; provided that the CAISO determines that the designation is necessary and that all other available procurement measures have failed to procure the resources needed for reliable operation. The CAISO will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs.

#### **43A.2.7 Cumulative Deficiency in Flexible RA Capacity**

- (a) **Annual Plans.** A cumulative deficiency will exist in the annual LSE Flexible RA Capacity Plans if the total amount of Flexible RA Capacity shown in the plans of all Load Serving Entities, based on the Effective Flexible Capacity value determined by the CAISO for each resource, is less than 90 percent of the annual Flexible Capacity Need determined by the CAISO pursuant to Section 40.10.1.
- (b) **Monthly Plans.** A cumulative deficiency will exist in the monthly Flexible RA Capacity Plans --
- (1) if the total amount of Flexible RA Capacity shown in the plans of all Load Serving Entities, limited on a collective basis to the maximum monthly requirement for each category and based on the Effective Flexible Capacity value determined by the CAISO for each resource, is less than the applicable monthly Flexible Capacity Need determined by the CAISO pursuant to Section 40.10.1; or
  - (2) if the total amount of Flexible RA Capacity shown in the base ramping Flexible Capacity Category in the plans of all Load Serving Entities, based on the Effective Flexible Capacity value determined by the CAISO for each resource, on a collective basis is less than the minimum monthly requirement for the base ramping Flexible Capacity Category determined by the CAISO pursuant to Section 40.10.1.4.

#### **43A.2.7.1 Final Opportunity to Resolve Deficiency**

If the processes set forth in Section 40.10.5.4, 40.10.5.5, and 40.10.5.6 do not fully resolve a deficiency or discrepancy in the annual or monthly Flexible RA Capacity Plans, and if the CAISO determines that a cumulative deficiency exists under Section 43A.2.7 and that there is a need for

Flexible Capacity CPM, but prior to issuing a Flexible Capacity CPM designation for the cumulative deficiency –

- (1) the CAISO shall (i) issue a Market Notice that describes the cumulative deficiency and specifies the quantity of Flexible RA Capacity necessary to meet the applicable Flexible Capacity Need, and (ii) notify the Load Serving Entities that are deficient and the Local Regulatory Authority with jurisdiction over each deficient Load Serving Entity;
- (2) a Scheduling Coordinator for a Load Serving Entity that is deficient, or for a Load Serving Entity subject to the jurisdiction of a Local Regulatory Authority that is deficient, may submit a revised annual or monthly Flexible RA Capacity Plan to demonstrate procurement of additional Flexible RA Capacity consistent with the Market Notice issued under this Section; but shall not include any other revisions in a plan submitted under this Section. A revised annual Flexible RA Capacity Plan must be submitted no later than December 31 for the following calendar year. A revised monthly Flexible RA Capacity Plan must be submitted no less than five days prior to the first day of the applicable month.

#### **43A.2.7.2 Designation**

After the opportunity to resolve the cumulative deficiency under Section 40.10.5.4 has been exhausted, if total required Flexible RA Capacity reported to the CAISO in revised annual or monthly Flexible RA Capacity Plans does not meet the Flexible RA Capacity Need in accordance with this Section, the CAISO may issue a Flexible Capacity CPM designation in an amount sufficient to alleviate the deficiency.

#### **43A.3 Terms Of CPM Designation**

##### **43A.3.1 SC Annual Plan Failure To Show Local Capacity Area Resources**

CPM Capacity designated under Section 43A.2.1.1 shall have a minimum commitment term of one (1) month and a maximum commitment term of one (1) year, based on the period(s) of overall shortage as reflected in the annual Resource Adequacy Plans that have been submitted.

The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

**43A.3.2 SC Month Plan Failure To Show Local Capacity Area Resources**

CPM Capacity designated under Section 43A.2.2.2 shall have a minimum commitment term of one (1) month. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

**43A.3.3 Annual Plan Collective LCA Resources Insufficient**

CPM Capacity designated under Section 43A.2.2 shall have a minimum commitment term of one (1) month and a maximum commitment term of one year, based on the period(s) of overall shortage as reflected in the annual Resource Adequacy Plans that have been submitted. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

**43A.3.4 SC Failure To Show Sufficient Resource Adequacy Resources**

CPM Capacity designated under Section 43A.2.3 shall: (a) have a minimum commitment term of one (1) month and a maximum commitment term equal to the maximum annual procurement period established by the Local Reliability Authority based on the period of the deficiency reflected in the annual Resource Adequacy Plan or (b) have a commitment term of one (1) month if the deficiency is in the monthly Resource Adequacy Plan. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

**43A.3.5 Term – CPM Significant Event**

CPM Capacity designated under Section 43A.2.4 shall have an initial term of thirty (30) days. If the CAISO determines that the CPM Significant Event is likely to extend beyond the thirty (30) day period, the CAISO may offer to extend the designation for another sixty (60) days. This offer of extension to the Scheduling Coordinator may be accepted or denied. If the Scheduling Coordinator declines an offer to extend the designation for an additional sixty (60) days, then the CAISO shall re-run the Intra-monthly CSP based on the existing offers. The Scheduling Coordinator for the resource declining an extension of the CPM designation shall be given the opportunity to provide an offer to that re-run Intra-monthly CSP, provided the offer is below the offer price at which its initial thirty (30) day designation was granted. If the Scheduling



Coordinator accepts an offer to extend the designation for an additional sixty (60) days, then the CPM Capacity shall continue to be compensated on the same terms as it was during the initial thirty (30) day designation. During this additional sixty (60) day period, the CAISO will provide Market Participants with an opportunity to provide alternative solutions to meet the CAISO's operational and reliability needs in response to the CPM Significant Event, rather than rely on the CAISO's designation of capacity under the CPM. The CAISO shall consider and implement, if acceptable to the CAISO in accordance with Good Utility Practice, such alternative solutions provided by Market Participants in a timely manner. If Market Participants do not submit any alternatives to the designation of CPM capacity that are fully effective in addressing the deficiencies in Reliability Criteria resulting from CPM Significant Event, the CAISO shall extend the term of the designation under Section 43A.2.4 for the expected duration of the CPM Significant Event.

If the solutions offered by Market Participants are only partially effective in addressing the CAISO's operational and reliability needs resulting from the CPM Significant Event, the CAISO shall extend the designation under Section 43A.2.4 for the expected duration of the CPM Significant Event, but only as to the amount of CPM Capacity necessary to satisfy the CAISO's operational and reliability needs after taking into account the effective capacity provided by the alternative solution. If there is a reasonable alternative solution that fully resolves the CAISO's operational and reliability needs, the CAISO will not extend the designation under Section 43A.2.4.

#### **43A.3.6 Term – Exceptional Dispatch CPM**

The CAISO shall make an explicit determination for each initial Exceptional Dispatch CPM designation as to whether it was necessary to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need. Exceptional Dispatch CPM Capacity designated under Section 43A.2.5 for an Exceptional Dispatch CPM System Reliability Need shall have an Exceptional Dispatch CPM Term of thirty (30) days. If the CAISO determines that the circumstances that led to the Exceptional Dispatch are likely to extend

beyond the initial thirty (30) day period, the CAISO shall issue an Exceptional Dispatch CPM or other CPM designation for an additional thirty (30) days.

Exceptional Dispatch CPM Capacity designated under Section 43A.2.5 for an Exceptional Dispatch CPM Non-System Reliability Need shall have an Exceptional Dispatch CPM Term of sixty (60) days. If the CAISO determines that the circumstances that led to the Exceptional Dispatch are likely to extend beyond the initial sixty (60) day period, the CAISO shall issue an Exceptional Dispatch CPM or other CPM designation for an additional sixty (60) days.

**43A.3.7 Term - Capacity At Risk Of Retirement Needed For Reliability**

A CPM designation for Capacity at risk of retirement under Section 43A.2.6 shall have a minimum commitment term of one (1) month and a maximum commitment term of one (1) year, based on the number of months for which the capacity is to be procured within the current RA Compliance Year. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year. The CAISO shall rescind the CPM designation for any month during which the resource is under contract with an LSE to provide RA Capacity.

**43A.3.8 Term – Flexible Capacity CPM Designation**

(a) **Annual Plan.** A Flexible Capacity CPM designation under Section 43A.2.7 for the failure to show sufficient Flexible RA Capacity in an annual Flexible RA Capacity Plan shall have a minimum commitment term of one month and a maximum commitment term of one year, based on the period(s) of overall shortage reflected in the annual plans. The term of a Flexible Capacity CPM designation under this Section must begin and end during the same calendar year.

(b) **Monthly Plan.** A Flexible Capacity CPM designation under Section 43A.2.7 for the failure to show sufficient Flexible RA Capacity in a monthly Flexible RA Capacity Plan shall have a commitment term of one month. The term of a Flexible Capacity CPM designation under this Section must begin and end during the same calendar month.

#### **43A.4 Selection Of Eligible Capacity Under The CPM through Competitive Solicitation Processes (CSP) and General Eligibility Rules**

In accordance with Good Utility Practice, the CAISO shall designate and compensate Eligible Capacity as CPM Capacity based on the results of either the Annual CSP, the Monthly CSP, or the Intra-monthly CSP.

The CAISO shall designate CPM Capacity through the Annual CSP to meet designations triggered under sections 43A.2.1.1, 43A.2.2, or 43A.2.3 (if the failure is to demonstrate sufficient Resource Adequacy capacity in an annual Resource Adequacy Plan), and 43A.2.7(a) (if the failure is to demonstrate sufficient Flexible Resource Adequacy capacity in an annual Flexible Resource Adequacy Plan).

The CAISO shall designate CPM Capacity through the Monthly CSP to meet designations triggered under sections 43A.2.1.2, 43A.2.3 (if the failure is to demonstrate sufficient Resource Adequacy capacity in a monthly Resource Adequacy Plan), or 43A.2.7(b) (if the failure is to demonstrate sufficient Flexible Resource Adequacy capacity in a monthly Flexible Resource Adequacy Plan).

The CAISO shall designate CPM Capacity through the Intra-monthly CSP to meet designations triggered under sections 43A.2.4 or 43A.2.5.

The selection criteria in this Section 43A.4 shall not, however, apply to making a risk-of-retirement CPM designation under Section 43A.2.6.

#### **43A.4.1 Offer Rules to the CSPs**

##### **43A.4.1.1 Price Component of a CSP Offer**

Offers of capacity to a CSP shall contain a single price denoted in units of \$/kW-month. The price offered into a CSP shall not be less than zero. Offer prices are subject to the CPM Soft Offer Cap of \$6.31/kW-month (\$75.68/kW-year). CPM Capacity shall not be compensated by the CAISO at a rate higher than the CPM Soft Offer Cap unless a Resource Owner of Eligible Capacity makes the required resource-specific cost filing with FERC pursuant to Section 43A.4.1.1.1.

**43A.4.1.1.1 Exceeding CPM Soft Offer Cap through a Resource-Specific Cost Filing with FERC**

A Scheduling Coordinator for a resource may offer a price in excess of the CPM Soft Offer Cap. The resource owner whose capacity is offered in excess of the CPM Soft Offer Cap must justify in a filing to FERC a price above the CPM Soft Offer Cap, which shall be determined in accordance with the methodology for determining the Annual Fixed Revenue Requirement of an RMR unit as set forth in Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. For a resource whose sales are under FERC jurisdiction that is providing CPM Capacity to be compensated at a rate higher than the CPM Soft Offer Cap, the resource owner must make a limited resource-specific filing before FERC to determine the just and reasonable capacity price for the resource as calculated per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

If the sales from the resource are not under the jurisdiction of FERC, the resource owner shall make a non-jurisdictional filing with FERC to determine the just and reasonable capacity price for the going forward costs for the resource as calculated per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

A resource owner may make a cost justification filing at FERC either before it offers a resource into the competitive solicitation process or after having capacity designated as CPM Capacity. If the resource owner has not made the cost justification filing before the capacity was designated as CPM Capacity, then the resource owner must make its cost justification filing with FERC within 30 days of the CPM designation. If the resource owner fails to make such cost justification filing within 30 days, then the CAISO shall deem the effective CPM Capacity price for the resource to be the CPM Soft Offer Cap. The resource owner may not propose – and shall not be compensated based upon – an offer price higher than the price submitted in its bid to the CAISO for the designated capacity.

A FERC-approved resource-specific CPM Capacity price shall remain in effect for the remainder of the calendar year in which it is approved and for the subsequent two calendar years, unless

superseded by a subsequent FERC-approved CPM Capacity price during that period. Although a FERC-approved resource-specific CPM Capacity price will be denoted in units of \$/kW-year, that \$/kW-year figure will be divided by 12 so that compensation will be in terms of \$/kW-month.

A resource that has obtained the appropriate FERC authorization in response to the cost justification filing described in this Section 43A.4.1.1.1 for a rate higher than the CPM Soft Offer Cap is not precluded from submitting a bid into the competitive solicitation process that is below the FERC-authorized rate and, if selected pursuant to such a bid, will be compensated based on that lower bid.

#### **43A.4.1.1.2 Periodic Updates to the CPM Soft Offer Cap**

For the purposes of this Section 43A.4.1.1.2, the reference resource shall be a merchant-constructed mid-cost, 550 MW combined cycle with duct firing or similar advanced combined cycle resource.

The CAISO shall open a stakeholder process at least every four years to consider updating the CPM Soft Offer Cap. If the CEC has posted a new draft of its Cost of Generation Study and Model (or similar study or model) that includes results for the reference resource in the forty-six months since the last draft of the Cost of Generation Study and Model (or similar study or model) was published, then the stakeholder process will commence within 10 days of that posting. If the CEC has not posted draft results within that 46-month period, then the CAISO shall commence the stakeholder process by the end of that four-year review period and administer or commission a study of the levelized going-forward fixed costs of the reference resource. The CAISO shall use its best efforts to complete the stakeholder process within six (6) months of its commencement.

The stakeholder process shall consider whether the CPM Soft Offer Cap adequately reflects 120% of the levelized going-forward fixed costs of the reference resource at the time of the stakeholder initiative. The basis of such consideration shall be the final results from the CEC Cost of Generation Study and Model (or similar study or model). If final results are not available for use in the stakeholder initiative, then the CAISO shall use published draft results. If there are no final or draft CEC study results available, then the CAISO shall use the results of a study it

administered or commissioned of the levelized going-forward fixed costs of the reference resource.

The stakeholder process also may consider, but would not reassess automatically, either what resource serves as the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20% adder to costs to set the CPM Soft Offer Cap.

If the CAISO has determined through the stakeholder initiative that the value of the CPM Soft Offer Cap warrants amendment, then, subject to any necessary action(s) by the CAISO Governing Board, the CAISO shall petition FERC under section 205 of the Federal Power Act to change the CPM Soft Offer Cap.

If the CAISO, through that section 205 filing, does not alter either the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20% adder to costs to set the CPM Soft Offer Cap, then any party that wishes to challenge the CAISO's retention of those elements of the CPM Soft Offer Cap shall bear the burden of showing that maintaining the unaltered element would be unjust, unreasonable, unduly discriminatory or preferential, or otherwise contrary to law.

#### **43A.4.1.2 Quantity Component of a CSP Offer**

Offers to a CSP shall contain a single quantity denoted in units of kW-month representing the quantity of capacity being offered as RA Capacity and a single quantity denoted in units of kW-month representing the quantity of capacity being offered as Flexible RA Capacity. The entire quantity of capacity included in a Scheduling Coordinator's offer must be capacity over which the Scheduling Coordinator either: (1) holds ownership or contractual rights to offer into a CSP; or (2) has been authorized to offer into a CSP by the entity that holds ownership or contractual rights to that capacity.

The quantity of capacity offered into a CSP from a generating resource located outside the CAISO Balancing Authority Area shall not exceed the lesser of: (1) the Pmax of the resource providing the capacity; and (2) the allocated import capability held by the Scheduling Coordinator of the resource less any capacity of the resource that is Committed RA Capacity for the term

covered by the CSP to which the capacity has been offered. If an offer is for both Flexible Capacity and RA Capacity and the resource receives an annual or monthly CPM designation for one type of capacity, then in any following CSPs that overlap in time with the CPM designation, the CAISO, on behalf of the resource, automatically will offer the non-designated type of RA capacity into the overlapping CSP(s) at \$0/kW-month up to the minimum of the amount available as non-RA capacity and the amount of capacity originally designated.

#### **43A.4.1.3 Exception to Offer Rules for Annual CSP – Different Prices for Different Months**

A Scheduling Coordinator for Eligible Capacity may offer into the Annual CSP varying prices in the form of \$/kW-month for different months of the Annual CSP if the Scheduling Coordinator wishes the CAISO to consider varying offer prices for individual months in the Annual CSP.

#### **43A.4.2 Administering the CSPs**

##### **43A.4.2.1 Identifying Effective Resources**

In making a CPM designation the CAISO shall first establish the minimum criteria needed to meet the requirements for the type of CPM to be issued to resolve the underlying reliability need. The CAISO shall then identify all resources with offers into the CSP that can meet the minimum criteria. In determining whether a particular resource can meet the minimum criteria, the CAISO shall consider how any known or scheduled outages on the resource during the potential CPM designation period would impact the resource's ability to meet the minimum criteria.

If there is insufficient capacity offered into the CSP to meet the minimum designation criteria, then the CAISO shall evaluate whether any Eligible Capacity not offered into the CSP would allow the CAISO to meet the minimum designation criteria. If the CAISO must designate capacity not offered in to the CSP to meet the minimum designation criteria, then for the purposes of operating the CSP, the CAISO shall consider the offer price for any such capacity to be the CPM Soft Offer Cap. A resource whose capacity was not offered into the CSP but nevertheless is deemed necessary to meet the minimum designation criteria shall have the option to request from FERC a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1 or, in the case of a

potential Exceptional Dispatch CPM, the resource's Scheduling Coordinator may decline the CPM designation and be paid under the supplemental revenues option pursuant to Section 39.10. In the event that there is insufficient capacity to meet the minimum designation criteria from both resources offered into the CSP and resources not offered into the CSP, then the CAISO may reassess and lower the minimum criteria.

#### **43A.4.2.2 Minimizing the Overall Cost of Meeting the Reliability Need**

Once the CAISO has identified the pool of resources that can meet the designation criteria, the CAISO shall then designate Eligible Capacity from that pool of resources in order to minimize the overall cost of meeting the designation criteria. Aside from considering the respective offer prices from the Eligible Capacity, as part of this cost minimization the CAISO also may consider: the quantity of a resource's available Eligible Capacity, based on a resource's PMin, relative to the remaining amount of capacity needed; and the quantity of a resource's available Eligible Capacity, based on outages and replacement or substitute daily RA Capacity.

For a potential Exceptional Dispatch CPM, the CAISO also shall consider the overall costs to the CAISO of issuing the Exceptional Dispatch to RA Capacity rather than to Eligible Capacity. If the CAISO determines it would minimize overall costs to issue the Exceptional Dispatch to RA Capacity, then the CAISO shall issue the Exceptional Dispatch to RA Capacity and not designate Eligible Capacity as CPM Capacity to meet the designation criteria.

If capacity would receive a CPM designation based on the cost minimization criteria but the resource from which the capacity would be provided faces use limitations such that the capacity, in the CAISO's reasonable discretion, poses the risk of being unavailable to fully meet the reliability need creating the CPM event, then the CAISO may, at its reasonable discretion and giving due regard for meeting cost minimization considerations, not grant that capacity a CPM designation and instead grant the designation to the next-best capacity at meeting the CAISO cost minimization process defined in this Section 43A.4.2.2. In exercising this discretion, the CAISO shall not unduly discriminate against resources with use limitations.

Additionally, if capacity would receive a CPM designation based on the cost minimization criteria but the resource from which the capacity would be provided is already going to be RA Capacity at



some point during the CPM designation period and, in the CAISO's reasonable discretion, poses the risk of the capacity being unavailable fully to meet the reliability need creating the need for a CPM designation, then the CAISO may, at its reasonable discretion and giving due regard for meeting cost minimization considerations, not grant that capacity a CPM designation and instead grant the designation to the next-best capacity at meeting the CAISO cost minimization process defined in this Section 43A.4.2.2.

#### **43A.4.2.3 Additional Permissible Considerations**

In either the Annual CSP or Monthly CSP, if two or more offers would meet the cost minimization criteria identified in Section 43A.4.2.2 equally, then the CAISO shall grant the designation in its discretion based on criteria A and B, below. In the Intra-monthly CSP, if two or more offers are within 10% of each other in terms of total cost to designate the capacity, then the CAISO shall grant the designation in its discretion based on criteria A and B, below.

Criterion A – Relative effectiveness of the resources in meeting local and/or zonal constraints or other ISO system needs.

Criterion B – Relative operating characteristics of the resources, including dispatchability, ramp rate, and load-following capability.

#### **43A.4.2.4 Timeline and Procedures for Annual CSP**

The CAISO shall conduct an initial offer period for the Annual CSP and an offer adjustment period for the Annual CSP according to the schedules published in the Business Practice Manual.

During the Annual CSP initial offer period Scheduling Coordinators shall have the opportunity to submit offers to the Annual CSP. Scheduling Coordinators submitting offers in the Annual CSP initial offer period that do not conform with the offer rules defined in Section 43A.4.1 shall have the opportunity to resubmit offers during the Annual CSP initial offer period.

During the Annual CSP offer adjustment period, Scheduling Coordinators have the option to remove capacity that was offered in the Annual CSP initial offer period or lower the offer price of capacity that was offered in the Annual CSP initial offer period. If an offer is withdrawn during the Annual CSP offer adjustment period, the Scheduling Coordinator for Eligible Capacity must

provide a reason for the withdrawal. This information will be used by the CAISO for tracking and market evaluation purposes only.

After the Annual CSP offer adjustment period closes, the CAISO shall validate that capacity offered in the Annual CSP from a given resource is not on a Resource Adequacy Plan in any applicable month of the annual RA showing. As long as a resource has sufficient capacity between the relevant NQC or EFC and the amount shown on any Resource Adequacy Plan for any day for which it potentially would hold a CPM designation, this capacity is eligible to participate in the CSP. Upon completion of the validation process offers to the CSP cannot be removed or altered until after the Annual CSP is complete.

#### **43A.4.2.5 Timeline and Procedures for Monthly CSP**

The CAISO shall conduct an initial offer period for the Monthly CSP and an offer adjustment period for the Monthly CSP according to the schedules published in the Business Practice Manual.

During the Monthly CSP initial offer period Scheduling Coordinators shall have the opportunity to submit offers to the Monthly CSP. Scheduling Coordinators submitting offers in the Monthly CSP initial offer period that do not conform with the offer rules defined in Section 43A.4.1 shall have the opportunity to resubmit offers during the Monthly CSP initial offer period.

During the Monthly CSP offer adjustment period, Scheduling Coordinators have the option to remove capacity that was offered in the Monthly CSP initial offer period or lower the offer price of capacity that was offered in the Monthly CSP initial offer period. If an offer is withdrawn during the Monthly CSP offer adjustment period, the Scheduling Coordinator for Eligible Capacity must provide a reason for the withdrawal. This information will be used by the CAISO for tracking and market evaluation purposes only.

After the Monthly CSP offer adjustment period closes, the CAISO shall validate that capacity offered in the Monthly CSP from a given resource is not Committed RA Capacity for that month.

As long as a resource has sufficient capacity between the relevant NQC or EFC and the Committed RA Capacity amount for any day for which it potentially would hold a CPM designation, this capacity is eligible to participate in the CSP. The Monthly CSP validation

process shall not validate whether the resource was or was not shown with overlapping capacity in an Annual Resource Adequacy Plan. Upon completion of the validation process offers to the CSP cannot be removed or altered until after the Monthly CSP is complete.

#### **43A.4.2.6** **Timeline and Procedures for Intra-monthly CSP**

The CAISO shall conduct an offer period for the Intra-monthly CSP according to the schedule published in the Business Practice Manual.

During the Intra-monthly CSP offer period Scheduling Coordinators shall have the opportunity to submit offers to the Intra-monthly CSP. Scheduling Coordinators submitting offers in the Intra-monthly CSP offer period that do not conform with the offer rules defined in Section 43A.4.1 shall have the opportunity to resubmit offers during the Intra-monthly CSP offer period.

After the Intra-monthly CSP offer period closes Scheduling Coordinators have the option to remove capacity that was offered in the Intra-monthly CSP offer period or lower the offer price of capacity that was offered in the Intra-monthly CSP offer period.

After the Intra-monthly CSP offer period closes, on a day that an Exceptional Dispatch CPM or Significant Event CPM would be made, any offers in the system will be locked through the assessment and designation period. The CAISO shall validate that capacity offered in the Intra-monthly CSP from a given resource is not Committed RA Capacity on the day that the CPM designation would begin. Where an Intra-monthly CSP would be conducted to grant an Exceptional Dispatch CPM, the offer price for any capacity offered from a resource that currently has Exceptional Dispatch CPM Capacity will be the offer price at which the existing Exceptional Dispatch CPM was granted. The CAISO will only grant an intra-monthly CPM to capacity that is not Committed RA Capacity on the day that the CPM designation would begin.

If an Exceptional Dispatch CPM is offered to a resource whose Scheduling Coordinator did not submit an offer to the Intra-monthly CSP, then the scheduling coordinator for that resource has 24 hours to reject the designation. If the resource rejects the designation, then the CAISO shall settle payments to the resource's Scheduling Coordinator under the supplemental revenues option per Section 39.10.

**43A.4.3 Designation Amount.** While the CAISO does not have to designate the full capability of a resource, the CAISO may designate under the CPM an amount of CPM Capacity from a resource that exceeds the amount of capacity identified to ensure compliance with the Reliability Criteria set forth in Section 40.3 due to the PMin or other operational requirements/limits of a resource that has available capacity to provide CPM service. The CAISO shall not designate the capacity of a resource for an amount of capacity that is less than the resource's PMin.

**43A.4.3.1 Simultaneous Designations.** In the event the CAISO determines that a CPM designation must be issued to resolve a collective deficiency of system RA Capacity under Section 43A.2.3 and that a Flexible Capacity CPM designation must be issued to resolve a cumulative deficiency of Flexible RA Capacity under Section 43A.2.7 for annual or monthly plans covering the same or overlapping time periods, the CAISO will apply the criteria in Section 43A.4.2 and endeavor to designate capacity that will be effective in resolving both underlying reliability needs –

- (1) If the MW amount of the simultaneous or overlapping designation is sufficient to resolve both underlying reliability needs, no further designation of CPM Capacity will be issued.
- (2) If the MW amount of the simultaneous or overlapping designation is not sufficient to resolve both underlying reliability needs, the CAISO may designate additional CPM Capacity to cover the remaining deficiency.

## **43A.5 Obligations Of A Resource Designated Under The CPM**

### **43A.5.1 Availability Obligations.**

CPM Capacity shall be subject to all of the availability, dispatch, testing, reporting, verification and any other applicable requirements imposed under Section 40.6 or Section 40.10.6 as applicable to Resource Adequacy Resources identified in Resource Adequacy Plans and Flexible RA Capacity resources identified in Resource Flexible RA Capacity Plans. In accordance with those requirements, CPM Capacity designated under the CPM shall meet the Day-Ahead availability

requirements specified in Section 40.6.1 and the Real-Time availability requirements of Section 40.6.2, and Flexible Capacity CPM shall meet the Day-Ahead and Real-Time availability requirements specified in Section 40.10.6.1. Also in accordance with those requirements, Generating Units designated under the CPM that meet the definition of Short Start Units shall have the obligation to meet the additional availability requirements of Section 40.6.3, and Generating Units designated under the CPM that meet the definition of Long Start Units will have the rights and obligations specified in Section 40.6.7.1.

If the CAISO has not received an Economic Bid or a Self-Schedule for CPM Capacity, the CAISO shall utilize a Generated Bid in accordance with the procedures specified in Section 40.6.8. In addition to Energy Bids, resources designated under the CPM shall submit Ancillary Service Bids for their CPM Capacity to the extent that the resource is certified to provide the Ancillary Service.

#### **43A.5.2 Obligation To Provide Capacity And Termination**

The decision to accept a designation as CPM Capacity shall be voluntary for the Scheduling Coordinator for any resource. If the Scheduling Coordinator for a resource accepts a CPM designation, it shall be obligated to perform for the full quantity and full period of the designation with respect to the amount of CPM Capacity for which it has accepted a CPM designation. If the Scheduling Coordinator for a resource accepts a Flexible Capacity CPM designation, the resource shall be obligated to perform for the full quantity and full period of the designation, subject to the must-offer obligation in Section 40.10.6 that applies to the Flexible Capacity Category of the resource that was designated. If a Participating Generator's or Participating Load's Eligible Capacity is designated under the CPM after the Participating Generator or Participating Load has filed notice to terminate its Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement or withdraw the Eligible Capacity from its Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement, and the Scheduling Coordinator for the resource agrees to provide service under the CPM, then the Scheduling Coordinator shall enter into a new Participating Generator Agreement,

Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement, as applicable, with the CAISO.

#### **43A.5.3 Availability Obligations for Simultaneous Designations.**

To the extent a resource accepts simultaneous or overlapping designations as CPM Capacity and Flexible Capacity CPM under Section 43A.4.3, that resource shall be subject to the must-offer obligations for both designations.

#### **43A.5.4 Individualized Non-Availability Charges And Availability Incentive Payments**

Capacity accepting a designation as CPM Capacity will face a resource-specific Availability Incentive Mechanism Price under section 40.9.6. The resource-specific price will be the higher of: (a) the price that the resource was paid by the CAISO (\$/kW-month) as a result of receiving the designation; and (b) the RA Availability Incentive Mechanism rate. Availability Incentive Mechanism payments to a resource designated under the CPM will be capped at the general Availability Incentive Mechanism rate.

For a resource requesting a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use that resource-specific CPM capacity price for calculating the Availability Incentive Mechanism only if that resource-specific CPM capacity price has been approved in time for inclusion on the Recalculation Settlement Statement T+55B. Otherwise, for resources that have sought a resource-specific CPM Capacity price pursuant to Section 43A.4.1.1.1, the CAISO shall use the CPM Soft Offer Cap price for calculating the Availability Incentive Mechanism price.

#### **43A.6 Reports**

The CAISO shall publish the following reports and notices.

##### **43A.6.1 CPM Designation Market Notice**

The CAISO shall issue a Market Notice within two (2) Business Days of a CPM designation under Sections 43A.2.1 through 43A.2.6. CPM designations as a result of Exceptional Dispatches shall be subject to the reporting requirement set forth in Section 34.9.4. The Market Notice shall include a preliminary description of what caused the CPM designation, the name of the resource(s) procured, the preliminary expected duration of the CPM designation, the initial

designation period, and an indication that a designation report is being prepared in accordance with Section 43A.6.2. For Exceptional Dispatch CPM designations, the market notice shall additionally indicate whether the designation was made to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need, specify the quantity of the Exceptional Dispatch CPM capacity that was procured and the Exceptional Dispatch CPM Term, and identify the engineering assessment the CAISO used to determine the quantity of capacity needed from the resource to address the reliability issue.

#### **43A.6.2 Designation Of A Resource Under The CPM**

The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under Sections 43A.2.1 through 43A.2.6 or ten (10) days after the end of the month. The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or CPM Significant Event), and an explanation of why it was necessary for the CAISO to utilize the CPM authority);
- (2) The following information would be reported for all backstop designations:
  - (a) the resource name;
  - (b) the amount of CPM Capacity or Flexible Capacity CPM designated (MW),
  - (c) an explanation of why that amount of CPM Capacity or Flexible Capacity CPM was designated,
  - (d) the date CPM Capacity was designated,
  - (e) the duration of the designation; and
  - (f) the accepted offer price of the resource, or if the resource has a request pending with FERC to exceed the CPM Soft Offer Cap, then the CPM Soft Offer Cap along with a notation that the

resource has a pending request with FERC to be compensated above the CPM Soft Offer Cap.

(3) If the reason for the designation is a CPM Significant Event, the CAISO will also include:

(a) a discussion of the event or events that have occurred, why the CAISO has procured CPM Capacity, and how much has been procured;

(b) an assessment of the expected duration of the CPM Significant Event;

(c) the duration of the initial designation (thirty (30) days); and

(d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.

(4) If the reason for the designation is Exceptional Dispatch CPM Capacity, the CAISO will also include additional information about the CAISO's determination of the quantity and term of the designation, which supplements the information included in the market notice issued pursuant to Section 43A.6.1.

### **43A.6.3 Non-Market And Repeated Market Commitment Of Non-RA Capacity**

Within ten (10) calendar days after the end of each month, the CAISO shall post a report to the CAISO Website that identifies for the prior month:

(1) Any non-market commitments of non-Resource Adequacy Capacity (irrespective of whether the capacity comes from a resource that has no Resource Adequacy obligation or has a pre-existing partial Resource Adequacy commitment); and

(2) All market commitments of non-Resource Adequacy Capacity.



The CAISO will provide a Market Notice of the availability of this report. The report will not include commitments of RMR Generation capacity, Resource Adequacy Capacity or designated CPM Capacity. The report shall include the following information:

- (a) the name of the resource;
- (b) the IOU Service Area and Local Capacity Area (if applicable);
- (c) the maximum capacity committed in response to the event (MW);
- (d) how capacity was procured (for example, by RUC or Exceptional Dispatch);
- (e) the reason capacity was committed; and
- (f) information as to whether or not all Resource Adequacy Resources and previously-designated CPM Capacity were used first and, if not, why they were not.

#### **43A.6.4 Publication of Offers Submitted to the Competitive Solicitation Process**

The CAISO shall publish all final offers into a CSP on a rolling quarterly basis with a five-quarter-delay. Published information shall include: (a) technology or fuel type of the resource; (b) kW-month of capacity offered; (c) for Annual and Monthly CSPs, capacity type offered (i.e., flexible, RA, or both); (d) CSP into which the capacity was offered; and (e) flexible capacity category, if applicable. Published information shall not include the identity of the party offering capacity into a CSP. If fewer than three resources of a particular technology or fuel type have offered into a CSP, then the CAISO shall consolidate reporting for multiple technology or fuel types.

#### **43A.7 Payments To Capacity Designated Under The CPM**

##### **43A.7.1. Calculation of Monthly CPM Capacity Payment**

Scheduling Coordinators representing resources receiving payment for a CPM designation shall receive a monthly CPM Capacity Payment for each month of CPM designation equal to the product of the kW-month of designated CPM Capacity and the CPM Capacity price per kW-month (based on the capacity's CSP bid, the CPM Soft Offer Cap, or the resource-specific CPM rate authorized by FERC, as applicable), with a deduction pro-rated for days the capacity was Committed RA Capacity other than CPM Capacity. Provided, however, that CPM Capacity

designated to respond to a CPM Significant Event or an Exceptional Dispatch CPM shall receive payment based proportionately on the actual number of days the resource was designated as CPM Capacity during the month to the total number of days in the month.

#### **43A.7.2 Payments For Overlapping CPM Designations to the Same Resource**

For the purpose of this Section 43A.7.2, a MW of capacity holds an overlapping obligation if that MW has a flexible RA obligation and another form of RA obligation. If a resource accepts separate CPM designations resulting in overlapping obligations, then the MW amount of the CPM capacity payments for the period the designations overlap shall be the higher of: (a) the higher MW amount of either designation; or (b) the quantity of Flexible Capacity CPM plus the quantity of capacity, if any, below the resource's PMin that is ineligible to count toward the resource's EFC per Section 40.10.4.1(a)(1). The resource shall not be provided with two CPM payments for the same capacity.

#### **43A.7.3 Market Payments**

In addition to the CPM Capacity Payment identified in Section 43A.7, CPM resources, including Flexible Capacity CPM resources, shall be entitled to retain any revenues received as a result of their selection in the CAISO Markets, provided, however, that CPM resources required to participate in the RUC process will be optimized using a zero (\$0) dollar RUC Availability Bid and are not eligible to receive compensation through the RUC process.

#### **43A.8 Allocation Of CPM Capacity Payment Costs**

For each month, the CAISO shall allocate the costs of CPM Capacity Payments made pursuant to Section 43A.7 as follows:

##### **43A.8.1 LSE Shortage Of Local Capacity Area Resources In Annual Plan**

If the CAISO makes CPM designations under Section 43A.2.1.1 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its annual Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE based on the ratio of its Local Capacity Area Resource

Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area. The Local Capacity Area Resource Deficiency under this Section shall be computed on a monthly basis and the CPM Capacity Payments allocated based on deficiencies during the month(s) covered by the CPM designation(s).

**43A.8.2 LSE Shortage Of Local Capacity Area Resources In Month Plan**

If the CAISO makes CPM designations under Section 43A.2.1.2 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its monthly Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area.

**43A.8.3 Collective Deficiency In Local Capacity Area Resources**

If the CAISO makes designations under Section 43A.2.2 the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs serving Load in the TAC Area(s) in which the deficient Local Capacity Area was located. The allocation will be based on the Scheduling Coordinators' proportionate share of Load in such TAC Area(s) as determined in accordance with Section 40.3.2, excluding Scheduling Coordinators for LSEs that procured additional capacity in accordance with Section 43A.2.1.2 on a proportionate basis, to the extent of their additional procurement.

**43A.8.4 LSE Shortage Of Demand Or Reserve Margin Requirement In Plan**

If the CAISO makes CPM designations under Section 43A.2.3, then the CAISO will allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each LSE based on the proportion of its deficiency to the aggregate deficiency.

#### **43A.8.5 Allocation Of CPM Significant Event Costs**

If the CAISO makes any CPM Significant Event designations under Section 43A.2.4, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the CPM Significant Event caused or threatened to cause a failure to meet Reliability Criteria based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

#### **43A.8.6 Allocation Of Exceptional Dispatch CPMs**

If the CAISO makes any Exceptional Dispatch CPM designations under Section 43A.2.5, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the Exceptional Dispatch CPM arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

#### **43A.8.7 Allocation of CPM Costs For Resources At Risk of Retirement**

If the CAISO makes any CPM designations under Section 43A.2.6 for resources at risk of retirement needed for reliability, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the CPM designation arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

#### **43A.8.8 Allocation of Flexible Capacity CPM Costs**

(a) Calculation of Deficiency by LRA.

(1) The CAISO will determine whether each Local Regulatory Authority met its allocable share of the Flexible Capacity Need based on the cumulative amount of Flexible RA Capacity that Local Regulatory Authority's jurisdictional Load Serving Entities included in their annual and

monthly Flexible RA Capacity Plans in total, and included in their monthly Flexible RA Capacity Plans for each Flexible Capacity Category.

(2) The CAISO will calculate the total amount of Flexible RA Capacity included in the annual and monthly Flexible RA Capacity Plans collectively for all Load Serving Entities within the Local Regulatory Authority, and the total amount included in the monthly Flexible RA Capacity Plans for each Flexible Capacity Category using the minimum or maximum quantity, as applicable, for each category, and using the Effective Flexible Capacity value calculated under Section 40.10.4 for each resource designated in a plan as a Flexible RA Capacity Resource.

**(b) Allocation By CAISO Method.**

(1) If the amount of Flexible RA Capacity the jurisdictional Load Serving Entities included in their annual Flexible RA Capacity Plans or monthly Flexible RA Capacity Plans, in total and in each Flexible Capacity Category, meets or exceeds the applicable Flexible Capacity Need allocated to their Local Regulatory Authority, the CAISO will not allocate any of the Flexible Capacity CPM costs to the Scheduling Coordinators for those Load Serving Entities.

(2) If the amount of Flexible RA Capacity the jurisdictional Load Serving Entities included in their annual Flexible RA Capacity Plans or monthly Flexible RA Capacity Plans, either in total or for a Flexible Capacity Category, is less than the applicable Flexible Capacity Need allocated to their Local Regulatory Authority, and that Local Authority has not established its own methodology for allocating the Flexible Capacity Need to its jurisdictional Load Serving Entities, the CAISO will allocate the Flexible Capacity CPM costs proportionately to the Scheduling Coordinator of each jurisdictional Load Serving Entity that failed to meet its procurement obligation.

**(c) Allocation by Local Regulatory Authority Method.** If Load Serving Entities jurisdictional to a Local Regulatory Authority have a cumulative deficiency under Section 43A.8.8(a) and the Local Regulatory Authority has established its own methodology for allocating the Flexible Capacity Need to its jurisdictional Load Serving Entities, the CAISO will use the Local Regulatory Authority's methodology to allocate the Flexible Capacity CPM costs to the

Scheduling Coordinator of each Load Serving Entity that is jurisdictional to that Local Regulatory Authority and that failed to meet its procurement obligation.

(d) **Reduction of Cost Allocation.** If the CAISO issues a Flexible Capacity CPM designation, a Scheduling Coordinator for a Load Serving Entity that was deficient, but provided additional Flexible RA Capacity in a revised annual or monthly Flexible RA Capacity Plan consistent with the Market Notice under Section 43A.2.7.1 --

(1) will be not be allocated a share of the Flexible Capacity CPM procurement costs if the additional Flexible RA Capacity included in that LSE's revised LSE Flexible RA Capacity Plan resolved the total deficiency of that Load Serving Entity; or

(2) will be allocated a share of the Flexible Capacity CPM procurement costs on a proportionate basis to the extent that Load Serving Entity has a remaining partial deficiency.

#### **43A.9 Crediting Of CPM Capacity**

The CAISO shall credit CPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entities as follows:

(a) To the extent the cost of CPM designation under Section 43A.2.1.1 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.1, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards (1) the LSE's Local Capacity Area Resource obligation under Section 40.3.2 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1 and (2) the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1.

(b) To the extent the cost of CAISO designation under Section 43A.2.2 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.3, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's

Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.2.

(c) To the extent the cost of CPM designation under Section 43A.2.3 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.4, and the designation is for greater than one month under Section 43A.3.4, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.3.

(d) To the extent the cost of CPM designation under Section 43A.2.6 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.7, and the designation is for greater than one month under Section 43A.3.7, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.6.

(e) The credit provided in this Section shall be used for determining the need for the additional designation of CPM Capacity under Section 43A.2 and for allocation of CPM costs under Section 43A.8.

(f) For each Scheduling Coordinator that is provided credit pursuant to this Section, the CAISO shall provide information, including the quantity of capacity procured in MW, necessary to allow the CPUC, other Local Regulatory Authority, or federal agency with jurisdiction over the LSE on whose behalf the credit was provided to determine whether the LSE

should receive credit toward its resource adequacy requirements adopted by such agencies or authorities.

(g) To the extent the cost of Flexible Capacity CPM designation under Section 43A.2.7 is allocated to a Scheduling Coordinator for an LSE under Section 43A.8.8, and the designation is for greater than one month under Section 43A.3.8, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Flexible Capacity requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the Flexible Capacity CPM designated under Section 43A.2.7.

**43A.10** **[Not Used]**

\* \* \*



[All sections other than 43.1 and 43A will be effective 3/1/16]

## Appendix A

### Master Definition Supplement

#### **- Committed RA Capacity**

Capacity that is either RA Capacity, Flexible RA Capacity, RA Substitute Capacity, RA Replacement Capacity, CPM Capacity, or Flexible Capacity CPM.

\* \* \*

#### **- Competitive Solicitation Process (CSP)**

One of the Competitive Solicitation Processes, as set forth in Section 43A.4.

\* \* \*

#### **- CPM Capacity**

Capacity of Generating Units, System Units, System Resources, PDR or Participating Load that is designated under the CPM in accordance with Section 43 during the term of the designation.

Flexible Capacity CPM is one form of CPM Capacity.

#### **- CPM Capacity Payment**

The payment provided pursuant to Section 43A.6 or 43A.67.

\* \* \*

#### **- CPM Soft Offer Cap**

A capacity price of \$6.31/kW-month (\$75.68/kW-year), as described in Section 43A.4.1.1.

\* \* \*

#### **- Eligible Capacity**

Capacity of Generating Units, System Units, System Resources, PDRs, or Participating Loads that ~~is not already under a contract to be a Resource Adequacy Resource, is not under an RMR Contract or is not currently designated as CPM Capacity that effectively resolves a procurement~~

~~shortfall or reliability concern and thus is eligible to be designated under the CPM in accordance with Section 43.1 on any day for which it potentially would hold a CPM designation, is not Committed RA Capacity and not under an RMR Contract. Capacity offered to a CSP will have its status as Eligible Capacity validated by the CAISO after close of the Annual CSP offer adjustment period, Monthly CSP offer adjustment period, and Intra-monthly CSP offer period for the Annual CSP, Monthly CSP, and Intra-monthly CSP, respectively. Capacity on, or scheduled to be on, a Forced Outage, Approved Maintenance Outage, or de-rate, is not operationally available and, for the duration of that unavailability, shall not be Eligible Capacity for purposes of potentially receiving a CPM Capacity designation.~~

\* \* \*

#### **- Flexible Capacity CPM**

Flexible Capacity designated under the Capacity Procurement Mechanism, for the term of the designation. Flexible Capacity CPM is a subset of CPM Capacity

\* \* \*

#### **- Resource Adequacy Capacity or RA Capacity**

The supply capacity of a Resource Adequacy Resource listed on a Resource Adequacy Plan and a Supply Plan. Upon receiving a designation as CPM Capacity, that designated capacity becomes RA Capacity for the duration of its designation as CPM Capacity.

\* \* \*

## **Appendix F Rate Schedules**

### **Schedule 6**

#### **CPM SCHEDULES FOR CPM DESIGNATIONS UNDER SECTION 43.**

##### **Monthly CPM Capacity Payment**

The monthly CPM Capacity Payment shall be calculated by multiplying the monthly shaping factor of 1/12 by the annual effective fixed CPM Capacity price per kW-year in accordance with Section 43.7.1, unless the Scheduling Coordinator for the CPM Capacity resource has agreed to another price that has been determined in accordance with Section 43.7.2.

## Availability

The target availability for a resource designated under CPM is 95%. Incentives and penalties for availability above and below the target are as set forth in the table below, entitled "Availability Factor Table." The CAISO shall calculate availability on a monthly basis using actual availability data. The CPM Availability Factor for Forced Outages for each month shall be calculated using the following curve:

**AVAILABILITY FACTOR TABLE**

Availability	Capacity Payment Factor	CPM Availability Factor
100%	3.3%	1.139
99%	3.3%	1.106
98%	3.3%	1.073
97%	2.5%	1.040
96%	1.5%	1.015
95%	-	1.000
94%	-1.5%	.985
93%	-1.5%	.970
92%	-1.5%	.955
91%	-1.5%	.940
90%	-1.5%	.925
89-80%	-1.7%*	.908-.755
79-41%	-1.9%*	.736-.014
-40%	-	0.0

\*The "Capacity Payment Factor" decreases by 1.7% and 1.9% respectively for every 1% decrease in availability.

The CPM Capacity Payment shall be adjusted upward from the 95% availability starting point by the positive percentages listed as the "Capacity Payment Factor" above, by multiplication by the amounts listed for each CPM Availability Factor above 95%, so that, for example, if a 97% availability is achieved for the month, then the CPM Capacity Payment for that month would be the monthly value for 95% plus an additional 4% (1.5% for the first percent availability above 95%, and 2.5% for the second percent availability above 95%), i.e., multiplication of the otherwise

applicable CPM Capacity Payment by the CPM Availability Factor of 1.040. Reductions in the CPM Capacity Payment shall be made correspondingly according to the "Capacity Payment Factor" above for monthly availability levels falling short of the 95% availability starting point, by multiplication by the amounts listed for each CPM Availability Factor below 95%.

**Attachment C**

**Offer of Settlement and Explanatory Statement re Capacity Procurement Mechanism Revisions**

**California Independent System Operator Corporation**

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator )  
Corporation )

Docket No. ER15-\_\_\_\_-\_\_\_\_

**OFFER OF SETTLEMENT**

The California Independent System Operator Corporation (CAISO) submits this Offer of Settlement, including the Explanatory Statement, to resolve all potentially contested issues (except for the minimum online commitment constraint issue, as noted below) arising from the CAISO's filing in this proceeding under Section 205 of the Federal Power Act to replace its existing Capacity Procurement Mechanism. The stakeholders listed below that participated in the CAISO's Capacity Procurement Mechanism replacement stakeholder initiative (Supportive Stakeholders) either support or do not oppose the Offer of Settlement.<sup>1</sup>

**1. DEFINITIONS**

1.1 All defined terms in this Offer of Settlement have the meanings set forth in the CAISO's open access transmission tariff (CAISO Tariff) as amended or supplemented from time to time, provided that such amendments or supplements of the defined terms shall not alter any rights or obligations set forth in the Offer of Settlement.

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<sup>1</sup> The Supportive Stakeholders include: Alliance for Retail Energy Markets; California Department of Water Resources State Water Project; California Large Energy Consumers Association; Public Utilities Commission of the State of California; Calpine Corporation; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Constellation; Dynegy; EnerNoc; Independent Energy Producers Association; Northern California Power Agency; NRG Energy, Inc.; Office of Ratepayer Advocates; Pacific Gas and Electric Company; San Diego Gas & Electric Company; Southern California Edison Company; and Western Power Trading Forum. All of the Supportive Stakeholders have advised the CAISO that they either support or do not oppose this Offer of Settlement.

## **2. ISSUES RESOLVED IN THIS SETTLEMENT**

2.1 All issues raised by the CAISO's Section 205 filing in this proceeding, with the exception of the minimum online commitment constraint issue discussed below, will be resolved fully by the Commission's acceptance, without modification or suspension, of this Offer of Settlement and the proposed CAISO Tariff provisions that are included in Attachments A and B, of the CAISO's filing. The CAISO and the Supportive Stakeholders request that the Commission issue an order in this proceeding accepting both the Offer of Settlement and attached Tariff provisions without modification or condition (Settlement Order). If the Commission proposes to modify this Offer of Settlement and/or the proposed CAISO Tariff, then per Section 6.2 of the Offer of Settlement, the CAISO and the Supportive Stakeholders have the option of agreeing to such proposed modification but are not obligated to so agree.

2.2 The great majority of issues resolved through this Offer of Settlement are addressed through the CAISO Tariff provisions included in Attachments A and B of the CAISO's filing.

2.3 Certain additional issues are not addressed in the revised tariff provisions but nevertheless are within the scope of this Offer of Settlement and should be approved by the Commission as part of its approval of the Offer of Settlement. These issues include: (a) monitoring by the CAISO for potential use of the CPM by load serving entities as a primary capacity procurement tool rather than as a backstop mechanism; (b) understanding whether a designation of Flexible Capacity CPM for capacity that already has been compensated for generic capacity would receive total capacity payments that exceed the CPM Soft Offer Cap; and (c) consideration of a

stakeholder process that would evaluate the need for CPM designation procedures to address deficiencies in multi-year forward resource adequacy procurement, in the event the Public Utilities Commission of the State of California (CPUC) or any other Local Regulatory Authority were to adopt multi-year forward Resource Adequacy procurement requirements.

2.4 This Offer of Settlement explicitly excludes resolution of whether the non-contracted capacity of a resource committed by the CAISO market software to meet a minimum online commitment constraint should receive a CPM designation.<sup>2</sup> Supportive Stakeholders are free to address this issue, either in this proceeding or in any other proceeding or venue, as they view appropriate. If in the future the CAISO seeks to implement other reliability constraints in the CAISO market software, then, at the time the CAISO pursues such implementation, Supportive Stakeholders would not be precluded under this Offer of Settlement from taking any particular position in any legal, regulatory, or CAISO stakeholder process, regarding whether the non-contracted capacity of a resource committed by the CAISO market software to meet such other proposed reliability constraint should or should not receive a CPM Designation.

### **3. OVERVIEW OF NEW COMPETITIVE SOLICITATION APPROACH TO GRANTING CPM DESIGNATIONS**

3.1. The Offer of Settlement proposes that, going forward, the CAISO will select capacity to receive a CPM designation (other than the Risk-of-Retirement designation) through a Competitive Solicitation Process (CSP).

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<sup>2</sup> Any minimum online commitment constraint referred to in this Offer of Settlement refers to any such constraint as identified in CAISO Operating Procedure 1210 (or its successor Operating Procedure). California ISO Operating Procedure 1210, Running the Day-Ahead Market, available at: <http://www.caiso.com/Documents/1210.pdf>.



3.2. The CAISO will operate three separate CSPs – one in the year-ahead timeframe (Annual CSP), one in the month-ahead timeframe (Monthly CSP), and one during the delivery month (Intra-monthly CSP). The CAISO will use the Annual CSP to grant CPM designations to address insufficient cumulative local, system, or flexible capacity in annual Resource Adequacy plans, and collective deficiencies in local areas. The CAISO will use the Monthly CSP to grant CPM designations to address insufficient cumulative local, system, or flexible capacity in monthly Resource Adequacy plans, and as permitted in Section 9.3.1.3.2.5 of the CAISO Tariff (or its successor provision). The CAISO will use the Intra-monthly CSP to grant CPM designations to address significant events and exceptional dispatches.

3.3. Scheduling Coordinators for Eligible Capacity will submit offers to the CSP from which they wish to receive a designation. If the CAISO needs to grant a CPM designation, it will identify the pool of Eligible Capacity with offers to the CSP that can meet the CPM need. The CAISO will then designate CPM capacity “in order to minimize the overall cost of meeting the CPM designation criteria.” CPM Capacity will receive compensation based on the product of the quantity of CPM Capacity designated and either its bid, the CPM Soft Offer Cap, or a Commission-approved resource-specific rate.

#### **4. SUMMARY OF CHANGES BY TARIFF SECTION**

4.1. By operation of Tariff Section 43.1.1, the current Capacity Procurement Mechanism expires on February 16, 2016, and will no longer exist after that date. The replacement Capacity Procurement Mechanism will not have a “built in” expiration date.

Section 43.1.1 accordingly is being eliminated. Attachments A and B to the CAISO's Section 205 filing set forth clean and redlined tariff sheets of Section 43A, respectively.

4.2. Revised Tariff Section 34.11 removes the current criteria for granting an Exceptional Dispatch CPM designation and instead references new Tariff Section 43A.4, which delineates how the CSPs will operate. The current process for granting an Exceptional Dispatch is meant to be a purely manual process and the current tariff language reflects this intention through a prohibition on the CAISO using elements of the IFM and RTM optimization software in considering which capacity will be Exceptionally Dispatched. Because Exceptional Dispatches under the approach contemplated in this Offer of Settlement would involve consideration of issues such as CPM offer prices from Eligible Capacity and commitment costs of existing Resource Adequacy capacity, the CAISO may find it beneficial to utilize pre-existing elements of the IFM and RTM optimization software in constructing the tool it would utilize to consider which units may receive an Exceptional Dispatch. For this reason, the current restriction on the use of the IFM and RTM optimization software will be removed.

4.3. Revised Tariff Section 39.10.3 establishes that the supplemental revenues option will now only apply where capacity did not offer into the Intra-monthly CSP, is offered an Exceptional Dispatch CPM, and declines the CPM designation.

4.4. Revised Tariff Section 39.10.4 alters the supplemental revenues cap so that it would now be met when the capacity receives supplemental revenue compensation comparable to what it would have received had it accepted the CPM designation at the CPM Soft Offer Cap.

4.5. Revised Tariff Section 40.4.6.2.1 reflects changes to the import allocation process to facilitate resources outside the CAISO Grid offering their capacity to the CSP. The import allocation process now will be limited to Scheduling Coordinators representing Load-Serving Entities, except for Step 13 of the process. In this final step, Scheduling Coordinators representing load serving entities, Participating Generators, or System Resources may request remaining import capability.

4.6. New Tariff Section 43.1 clarifies that CPM designations under Revised Tariff Section 43 shall remain in effect under the Section 43 rules for the duration of the designation.

4.7. New Tariff Section 43A.2.5.2.1 removes statements regarding which types of capacity are ineligible to receive an Exceptional Dispatch CPM designation because this language is superseded by changes to the relevant defined terms, discussed below. Additionally, New Tariff Section 43A.2.5.2.1 provides that the CAISO will conduct an engineering assessment to determine the amount of capacity to be provided with a CPM designation whenever the CAISO exceptionally dispatches a generating unit with any amount of non-contracted capacity.

4.8. New Tariff Section 43A.2.5.2.3 establishes that if capacity receives an Exceptional Dispatch CPM designation and capacity from the same resource receives an additional Exceptional Dispatch CPM designation during the same time period of the initial designation, then the additional capacity will be compensated at the same price as the initially designated capacity was compensated.

4.9. New Tariff Section 43A.2.5.3 provides that if capacity is not offered to the Intra-monthly CSP and is then Exceptionally Dispatched, such capacity automatically

will be treated under the supplemental revenues option if it declines the CPM designation. This section also provides that supplemental revenues payments will be capped at the equivalent of the CPM Soft Offer Cap.

4.10. New Tariff Section 43A.2.6 states that a resource requesting a Risk-of-Retirement CPM designation must have offered its non-contracted capacity into all of the CSPs for the current Resource Adequacy year in order to be considered for such designation.

4.11. New Tariff Section 43A.3.5 grants the CAISO authority to offer a 60-day extension to the term of designation for capacity receiving a Significant Event CPM designation. Under New Tariff Section 43A.3.5, if the Scheduling Coordinator for the resource accepts the offer, then compensation remains the same for the 60-day extension. If the Scheduling Coordinator rejects the offer, then the CAISO will re-run the Intra-monthly CSP with the Scheduling Coordinator for the capacity rejecting the offer having the opportunity to re-offer the capacity into that CSP at a lower price than it received for the initial designation.

4.12. New Tariff Section 43A.4 provides an overview describing how the CSPs will function and which CSPs the CAISO will use to designate capacity for the various CPM categories. The CAISO will use the Annual CSP to designate CPM capacity to address insufficient cumulative local, system, or flexible capacity in annual Resource Adequacy plans, and collective deficiencies in local areas. The CAISO will use the Monthly CSP to designate CPM capacity to address insufficient cumulative local, system, or flexible capacity in monthly Resource Adequacy plans, and as permitted in Section 9.3.1.3.2.5 of the CAISO Tariff (or its successor provision). The CAISO will use

the Intra-monthly CSP to designate CPM capacity to address significant events and exceptional dispatches. The CAISO will not use CSPs to designate CPM capacity pursuant to the Risk-of-Retirement category.

4.13. New Tariff Section 43A.4.1.1 requires CSP offers to contain a single price for all capacity covered by the offer. Further, the offer price is subject to the CPM Soft Offer Cap of \$6.31/kW-month (\$75.68/kW-year). The CAISO will not compensate CPM Capacity at a rate higher than the CPM Soft Offer Cap unless a resource owner of Eligible Capacity makes the required resource-specific cost filing with the Commission pursuant to New Tariff Section 43A.4.1.1.1 and that filing is approved.

4.14. New Tariff Section 43A.4.1.1.1 delineates the procedures for a resource owner to seek to justify an offer price to the Federal Energy Regulatory Commission in excess of the CPM Soft Offer Cap. Specifically, a resource owner may seek to justify a price above the CPM Soft Offer Cap using the methodology for determining the Annual Fixed Revenue Requirement of a Reliability Must Run unit as set forth in Schedule F to the *pro forma* RMR Agreement in Appendix G of the CAISO tariff. A resource owner may make a cost justification filing with the Commission either before capacity from the resource is offered into the competitive solicitation process or within 30 days after having capacity designated as CPM Capacity. If the resource owner fails to make a cost justification filing within the 30-day period, then the CAISO shall compensate the resource at the CPM Soft Offer Cap. A resource owner may not propose to the Commission – and shall not be compensated – at an offer price higher than the price submitted in its bid to the CAISO for the designated capacity. If the Commission approves the cost-justified price above the CPM Soft Offer Cap, such price will remain

in effect for the balance of the calendar year in which it was approved and the following two years. Even if the Commission has approved a price for a resource in excess of the CPM Soft Offer Cap, the Scheduling Coordinator for the resource may submit an offer below that FERC-approved offer cap, which, if accepted, will be paid at that bid price.

4.15. New Tariff Section 43A.4.1.1.2 requires the CAISO to reevaluate the CPM Soft Offer Cap price through a stakeholder process at least every four years and sets forth the process for undertaking that reevaluation. If the California Energy Commission has posted a new draft of its Cost of Generation Study and Model (or similar study or model) that includes the results for the levelized going-forward fixed costs of a mid-cost, merchant-constructed, 550 MW combined cycle unit with duct firing, or similar advanced combined cycle unit (*i.e.*, the reference unit), in the 46 months since the last cost study or model was published, the stakeholder process will commence within 10 days of that posting. If the CEC has not posted draft results within that 46-month period, then the CAISO shall commence the stakeholder process by the end of the four-year review period. The CAISO shall use its best efforts to complete the stakeholder process within six months of commencement. The stakeholder process will consider whether the CPM Soft Offer Cap adequately reflects the levelized going-forward fixed costs of the reference resource, plus 20 percent. The stakeholder process will use final CEC study results, if they are available. If final results are not available, then the CAISO will use draft study results. If neither final nor draft CEC study results are available, then the CAISO will use the results of a study it administers or commissions. The stakeholder process also may, but need not, consider what resource serves as the reference resource, the components of fixed costs that are considered in setting the CPM Soft

Offer Cap, or the use of a 20 percent adder to costs to set the CPM Soft Offer Cap. If the CAISO determines through the stakeholder process that the CPM Soft Offer Cap warrants amendment, then it will make a filing with the Commission under section 205 of the Federal Power Act requesting such amendment. Provided, however, that if the CAISO's amendment to the CPM Soft Offer Cap does not alter either the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20 percent adder to costs to set the CPM Soft Offer Cap, then any party that wishes to challenge the CAISO's retention of those elements of the CPM Soft Offer Cap will bear the burden of showing that maintaining the unaltered element would be unjust, unreasonable, unduly discriminatory or preferential, or otherwise contrary to law.

4.16. New Tariff Section 43A.4.1.2 specifies that CSP offers must contain a single quantity of Resource Adequacy Capacity and a single quantity of Flexible Resource Adequacy Capacity. The entire quantity of capacity included in a Scheduling Coordinator's offer must be either capacity over which the Scheduling Coordinator holds ownership or contractual rights to offer into the CSP or capacity over which the party holding ownership or contractual rights to offer into a CSP has authorized the Scheduling Coordinator to offer into a CSP. Capacity from external resources is limited to the lower of a resource's Pmax or the allocated import capability held by the Scheduling Coordinator of the resource less any capacity of the resource that is Committed Resource Adequacy Capacity for the term covered by the CSP to which the capacity has been offered.

4.17. New Tariff Section 43A.4.1.3 allows Scheduling Coordinators to offer in different prices for different months in the Annual CSP.

4.18. Under New Tariff Section 43A.4.2.1, the CAISO will establish the minimum criteria that capacity must meet to resolve the underlying reliability need. The CAISO then identifies all resources with offers in the CSP that can meet that need. If no offered resources meet the need, then the CAISO can look to unoffered Eligible Capacity to address the need. If the CAISO must designate capacity that was not offered into the CSP to meet the minimum designation criteria, the CAISO shall consider the offer price of such capacity to be the CPM Soft Offer Cap; although, the resource would have the option, per New Tariff Section 43A.4.1.1.1, of requesting a resource specific capacity price from the Commission or, in the case of an Exceptional Dispatch CPM, decline the CPM designation and be paid under the supplemental revenues option. As a final step, if there is insufficient capacity to meet the minimum designation criteria, the CAISO may reassess and lower the minimum criteria and then start the process over.

4.19. New Tariff Section 43A.4.2.2 specifies that from the pool of Eligible Capacity, the CAISO will choose the resource(s) that minimizes the overall cost of meeting the designation criteria. In addition to considering offer prices for Eligible Capacity, the CAISO also may consider the quantity of a resource's available Eligible Capacity, based on a resource's Pmin, relative to the remaining amount of capacity needed; and the quantity of a resource's available Eligible Capacity, based on outages and replacement or substitute daily Resource Adequacy capacity. In the case of a potential Exceptional Dispatch CPM designation, if it would minimize costs to issue the Exceptional Dispatch to Resource Adequacy Capacity rather than to Eligible Capacity,



then the CAISO must issue the Exceptional Dispatch to the Resource Adequacy Capacity and forego a CPM designation. If a resource's use limitations risk making the capacity unavailable fully to meet the reliability need or if the capacity is already set to become Resource Adequacy Capacity at some point during the CPM designation period and that poses the risk of the capacity being unavailable to meet the reliability need, then the CAISO may, at its reasonable discretion, select the next-best capacity at meeting the cost minimization standard.

4.20. New Tariff Section 43A.4.2.3 provides that in case of a tie among offered capacity, the CAISO additionally will consider the relative effectiveness of the capacity in meeting local and/or zonal constraints or CAISO system needs and the relative operating characteristics of the resources providing the capacity, including dispatchability, ramp rate, and load following capability. For the Intra-monthly CSP, the "tiebreaker" goes into effect if the costs of awarding two or more offers would be within 10 percent of each other.

4.21. New Tariff Section 43A.4.2.4 establishes that the Annual CSP has an initial offer period and an offer adjustment period. The schedule for the Annual CSP offer and adjustment periods will be set forth in the Business Practice Manual. Scheduling Coordinators may withdraw offers or lower their offer price during the adjustment period, but they must provide, solely for tracking and market evaluation purposes, an explanation for the request to withdraw the offer or lower its price. The explanation provided by the Scheduling Coordinator shall not serve as the basis for the CAISO rejecting the request to withdraw an offer or lower its price. The CAISO validates

offers after the adjustment period to ensure that the capacity actually is Eligible Capacity.

4.22. New Tariff Section 43A.4.2.5 establishes that the Monthly CSP has an initial offer period and an offer adjustment period. The schedule for the Monthly CSP offer and adjustment periods will be set forth in the Business Practice Manual. Scheduling Coordinators may withdraw offers or lower their offer price during the adjustment period, but they must provide, solely for tracking and market evaluation purposes, an explanation for the request to withdraw the offer or lower its price. The explanation provided by the Scheduling Coordinator shall not serve as the basis for the CAISO rejecting the request to withdraw an offer or lower its price. The CAISO validates offers after the adjustment period to ensure that the capacity actually is Eligible Capacity.

4.23. New Tariff Section 43A.4.2.6 establishes that the Intra-monthly CSP has a single offer period. The schedule for the Intra-monthly CSP will be set forth in the Business Practice Manual. After the Intra-monthly offer period closes, Scheduling Coordinators may withdraw offers or lower their offer price, but the offer set is locked down on any day that an Exceptional Dispatch CPM or Significant Event CPM would be made through the assessment and designation period. The CAISO shall validate that capacity offered in the Intra-monthly CSP is not Committed Resource Adequacy Capacity on the day the CPM designation would begin. If the CAISO offers an Exceptional Dispatch CPM to a resource whose Scheduling Coordinator did not submit an offer in the Intra-monthly CSP, then the Scheduling Coordinator for that resource has

24 hours to reject the designation. If the resource rejects the designation, then it shall be treated as having accepted the supplemental revenues option.

4.24. New Tariff Section 43A.5.4 provides a resource-specific Availability Incentive Mechanism Price for CPM Capacity, in contrast to other Resource Adequacy Capacity. The price will be the higher of the capacity's CPM price and the general Resource Adequacy Availability Incentive Mechanism Price.

4.25. New Tariff Section 43A.6.2 requires that when the CAISO issues a CPM designation, the applicable market notice also now will include the accepted offer price.

4.26. New Tariff Section 43A.6.3 mandates that the CAISO's monthly CPM report include information about non-market commitments of capacity that did not already hold a Resource Adequacy commitment, irrespective of whether the resource providing the capacity had no existing Resource Adequacy obligation or a partial obligation.

4.27. New Tariff Section 43A.6.4 requires the CAISO to publish, on a rolling five-quarter lag, CSP offers without identifying the party submitting the offer.

4.28. New Tariff Section 43A.7.1 specifies that the CAISO will compensate CPM capacity based on the product of its offer price and the quantity of capacity designated as CPM. Because compensation no longer will be based on the CPM Availability factor, the Revised Tariff removes Appendix F, Schedule 6 and the defined term "CPM Availability Factor."

4.29. New Tariff Section 43A.7.2 establishes the total MW of capacity that will receive CPM capacity payments in cases where the same MW of capacity holds an overlapping obligation between providing flexible Resource Adequacy and another form

of Resource Adequacy obligation. The MW quantity receiving payment will be the higher of: the higher MW amount of either designation; or the quantity of Flexible Capacity CPM plus the quantity of capacity, if any, below the resource's PMin that is ineligible to count toward the resource's Effective Flexible Capacity.

4.30. New Tariff Sections 43A.2.5.2.1, 43A.4.3, 43A.4.3.1, 43A.5.1, and 43A.5.2 reflect updates of current Section 43 based on new terminology. New Tariff Sections 43A.5.3, 43A.8.8, and 43A.9 correct the current Tariff Section 43's incorrect usage of the defined term "Flexible Capacity CPM." New Tariff Section 43A.3.3 corrects minor typographical errors in the existing language. New Tariff Section 43A.8.4 updates an internal citation in Section 43 to another CAISO Tariff provision.

4.31. CAISO Tariff, Appendix A, Master Definition Supplement, is revised to include the following new defined terms:

- **Committed RA Capacity**  
Capacity that is either RA Capacity, Flexible RA Capacity, RA Substitute Capacity, RA Replacement Capacity, CPM Capacity, Flexible Capacity CPM.
- **Competitive Solicitation Process (CSP)**  
One of the Competitive Solicitation Processes, as set forth in Section 43.4.
- **CPM Soft Offer Cap**  
A capacity price of \$6.31/kW-month (\$75.68/kW- year), as described in Section 43.4.1.1.

4.32. CAISO Tariff, Appendix A, Master Definition Supplement, is revised to amend the following existing defined terms:

- **CPM Capacity**  
The CAISO clarifies that Flexible Capacity CPM is one of the forms of CPM Capacity and is not distinct from the general term.

- **CPM Capacity Payment**  
The internal tariff citation is updated.
- **Eligible Capacity**  
The CAISO defines Eligible Capacity with respect to the new term Committed RA Capacity and also states when capacity is confirmed to be Eligible Capacity.
- **Flexible Capacity CPM**  
The CAISO clarifies that Flexible Capacity CPM is one of the forms of CPM Capacity and is not distinct from the general term.
- **Resource Adequacy Capacity or RA Capacity**  
The CAISO clarifies that once capacity is designated as CPM Capacity it also becomes RA Capacity during the period of its designation. Accordingly, it must meet all of the requirements imposed upon RA Capacity.

**5. ISSUES RESOLVED THROUGH SETTLEMENT BUT NOT ADDRESSED IN TARIFF LANGUAGE**

5.1. This Offer of Settlement covers three additional mutual covenants and commitments that do not constitute a rate, term, or condition of service provided by the CAISO and that therefore are not addressed in the revised tariff provisions. However, they are integral parts of the Offer of Settlement for purposes of resolving the outstanding issues in this proceeding.

5.2. The CAISO will monitor the use of the CPM to ensure that load serving entities are not relying on the CPM as a primary means of capacity procurement to meet Resource Adequacy obligations, which the Supportive Stakeholders and the CAISO agree is an inappropriate use of the CPM. The first time either of the two following conditions occur the CAISO will open a stakeholder initiative to explore whether load serving entities have relied on the CPM, to an unacceptable extent, as a primary means of capacity procurement:

- 1) Within a rolling 24-month period, the same load serving entity twice relies on the CPM to meet any Resource Adequacy deficiency (either in an annual or monthly Resource Adequacy plan).
- 2) Any load serving entity meets more than 50 percent of its annual or monthly Resource Adequacy obligation for a year or month, respectively, with CPM Capacity procured by the CAISO on that load serving entity's behalf.

The stakeholder initiative that would take place would consider the CPM designation(s) that triggered the stakeholder initiative and possible solutions to discourage load serving entities from relying on the CPM for forward capacity procurement in the future. The stakeholder proceeding shall not encompass adjudicating the conduct of an individual load serving entity's capacity procurement decisions. The stakeholder proceeding may consider prospectively-applicable remedial measures designed to avoid load serving entity reliance on the CPM.

5.3. The revised tariff provisions permit a resource providing Resource Adequacy capacity other than flexible Resource Adequacy Capacity to a load serving entity through a Resource Adequacy contract to also receive a Flexible Capacity CPM designation for a flexible capacity Resource Adequacy deficiency. In such a circumstance the capacity could receive total payment in excess of the CPM Soft Offer Cap. The CAISO and Supportive Stakeholders agree that in the absence of a Commission-approved resource-specific filing with the Commission, compensation for providing CPM Capacity should not provide a resource with total payment above the CPM Soft Offer Cap. Therefore, where capacity receives a Flexible Capacity CPM designation, the CAISO will consult with the relevant Local Regulatory Authority to determine whether the capacity received total payment above the CPM Soft Offer Cap. The CAISO will make its findings public through a market notice or similar

communication. If the CAISO concludes that the capacity's total compensation exceeded the CPM Soft Offer Cap, then it will start a stakeholder initiative to explore any potential issues created by the multiple payments and consider possible mitigation measures to address the issue.

5.4. Neither the CPUC nor any other Local Regulatory Authority currently requires its jurisdictional load serving entities to meet multi-year forward Resource Adequacy requirements. If the CPUC or another Local Regulatory Authority were to adopt multi-year forward Resource Adequacy procurement requirements, then the CAISO would initiate a stakeholder process to consider adding a new category of CPM designation to provide the CAISO authority to procure backstop capacity and to extend the CSP processes to address them. Such stakeholder initiative also may consider whether any corresponding changes to the CAISO's Risk-of-Retirement CPM designation are warranted.

## **6. EFFECTIVE DATES AND RESERVATION OF RIGHTS REGARDING FUTURE AMENDMENTS**

6.1 The CAISO and the Supportive Stakeholders request that the revised tariff provisions be effective March 1, 2016, and remain in effect until the Commission orders otherwise.

6.2 Subject to the provisions of Tariff Section 43A.4.1.1.2 and Section 4.15 of this Offer of Settlement, nothing in this Offer of Settlement is intended to prejudice or limit the CAISO's authority to make a filing with the Commission pursuant to Section 205 of the Federal Power Act, or a Supportive Stakeholder's exercise of its rights under Federal Power Act Sections 205 or 206, regarding any capacity procurement that is not subject to Section 43 of the CAISO Tariff, as it exists as of the Settlement Order Date,

and to propose for such new CPM Capacity procurement any compensation or other provisions, which may be the same as or different from the revised tariff provisions.

6.3 Subject to the provisions of Tariff Section 43A.4.1.1.2 and Section 4.15 of this Offer of Settlement, nothing in this Offer of Settlement is intended to prejudice or limit any party's position or rights under Federal Power Act Sections 205 or 206 with respect to whether the revised tariff provisions should remain in effect, or be modified or replaced, after the Settlement Order Date.

## **7. MISCELLANEOUS**

7.1 This Offer of Settlement is not binding on the CAISO or a Supportive Stakeholder unless and until the Commission accepts this Offer of Settlement without modifications or conditions opposed by any Supportive Stakeholder or the CAISO.

7.2 If the Commission, in approving this Offer of Settlement modifies the Offer of Settlement in a manner that materially changes the benefits and burdens negotiated herein, the CAISO and the Supportive Stakeholders will meet and confer within 30 days as to whether all of them can support or not oppose a modified Offer of Settlement. If all of the Supportive Stakeholders, as well as the CAISO, do not agree to support or not oppose a modified Offer of Settlement within sixty (60) days of a Commission order materially changing the Offer of Settlement, the Offer of Settlement will terminate.

7.3 This Offer of Settlement will have no precedential value, shall not be cited as precedent, and shall not be deemed to bind any Supportive Stakeholder or the CAISO (except as expressly provided herein) in any future proceeding, including any future FERC proceeding, except to enforce this Offer of Settlement. Further, this Offer



of Settlement will not be deemed to be a “settled practice” as that term was interpreted and applied in *Public Service Commission of the State of New York v. FERC*.<sup>3</sup>

7.4 This Offer of Settlement is made upon the express understanding that it constitutes a negotiated settlement and, except as otherwise expressly provided herein, neither the CAISO nor any Supportive Stakeholder shall be deemed to have approved, accepted, agreed to, or consented to any principle or policy relating to the rates, charges, classifications, terms, conditions, principles, issues or tariff sheets associated with this Offer of Settlement.

7.5 The Attachments to this Offer of Settlement are hereby integrated into, and will constitute part of, this Offer of Settlement.

7.6 This Offer of Settlement will be subject to the just and reasonable standard of review.

7.7 All discussions among the various Supportive Stakeholders and the CAISO relating to this Offer of Settlement have been conducted on the explicit understanding that they were undertaken subject to Rule 602(e) of the Commission’s Rules of Practice and Procedure.<sup>4</sup> All offers of settlement, and any comments on such offers, and any discussions among the various Supportive Stakeholders and the CAISO with respect to this Offer of Settlement are privileged, are not admissible as evidence, and are not subject to discovery.

7.8 The Supportive Stakeholders and the CAISO hereby waive any and all rights to seek rehearing or judicial review of any Settlement Order that approves the

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<sup>3</sup> 642 F.2d 1335 (D.C. Cir. 1980).

<sup>4</sup> 18 C.F.R. § 385.602(e).

Offer of Settlement and accompanying tariff provisions without modification or condition; provided, however, that if the Commission approves the Offer of Settlement or the accompanying tariff provisions with modifications or conditions, the CAISO or any Supportive Stakeholder may seek rehearing or judicial review of such Commission order(s) approving the Offer of Settlement solely to challenge the Commission's imposition of such modifications or conditions in order to preserve the terms and conditions of the Offer of Settlement or the compliance filing as filed.

## **8. CONCLUSION**

The Offer of Settlement would fully resolve all of the issues raised in the potential docket except for the issue noted above regarding the minimum online commitment constraint. Commission approval of the Offer of Settlement will save the Supportive Stakeholders, the CAISO, and the Commission the expense and risks associated with continued litigation. For all of these reasons, the CAISO, on behalf of itself and the Supportive Stakeholders, respectfully requests that the Commission approve the Offer of Settlement without modification.

Respectfully submitted,

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System Operator Corporation

Dated: May 26, 2015

**OFFER OF SETTLEMENT  
ATTACHMENT A**

**EXPLANATORY STATEMENT**



shared the same basic approach – the CAISO compensates all designated capacity based on an administrative price. Currently, that price is \$70.88/kW-year.

Section 43 of the CAISO Tariff delineates the scope of the CAISO's current backstop capacity procurement authority under the CPM. Under the existing CPM, the CAISO may procure capacity to maintain grid reliability or supplement Resource Adequacy procurement by load serving entities under seven defined circumstances: (1) a deficiency in local capacity area resources in a load serving entity's resource adequacy plan; (2) insufficient resource adequacy resources in a load serving entity's annual or monthly resource adequacy plan; (3) collective deficiency in a local capacity area after accounting for all procured resource adequacy resources; (4) significant event occurs that threatens reliability and there are insufficient resource adequacy resources available to address the problem; (5) reliability or operational need requires the ISO to dispatch non-resource adequacy capacity; (6) capacity is at risk of retiring within the current resource adequacy compliance year that will be needed for reliability by the end to the calendar year following the current resource adequacy compliance year; or (7) a cumulative deficiency in the total flexible resource adequacy capacity in the annual or monthly flexible resource adequacy capacity plans or in a flexible capacity category in the monthly resource adequacy plans of load serving entities. The Offer of Settlement does not change the existing CPM categories.

As with the RCST, the existing CPM compensation scheme arose from a settlement. The CPM, as the CAISO initially filed it, was accepted and suspended subject to refund, with the core issue of CPM compensation set for technical

conference.<sup>5</sup> The Commission expressed concern that the level of backstop capacity compensation should fluctuate over time rather than be fixed and that it provide a meaningful opportunity for suppliers to recover additional fixed costs. The Commission stated that the CAISO's proposal to have a static CPM compensation level was not "shown to be just and reasonable because of the likelihood that market conditions, which can affect the price of capacity, will fluctuate over time" and that because "Resource adequacy compensation has the potential to fluctuate over time based on changes in system conditions and the amount of capacity available to meet reliability needs," so too should CPM compensation.<sup>6</sup> On the issue of cost recovery, the Commission noted that the CAISO did not explain how its proposed use of going-forward costs would "provide incentives or revenue sufficiency for resources to perform long-term maintenance or make improvements that may be necessary to satisfy new environmental requirements or address reliability needs associated with renewable resource integration."<sup>7</sup>

In response to the Commission's order, the CAISO and multiple parties entered settlement discussions. Those discussions resulted in a filed offer of settlement, which the Commission subsequently approved.<sup>8</sup> The settlement included a provision that the accompanying tariff language would expire forty-eight months after the settlement was approved. Accordingly, absent further action, after February 16, 2016, the CAISO would have no backstop capacity procurement authority.

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<sup>5</sup> *Cal. Indep. Sys. Operator Corp.*, 134 FERC ¶ 61,211 (2011) (CPM Order).

<sup>6</sup> CPM Order at P 58.

<sup>7</sup> *Id.* at P 57.

<sup>8</sup> *Cal. Indep. Sys. Operator Corp.*, 138 FERC ¶ 61,112 (2012) (CPM Settlement Order).

At no point has the CAISO intended its backstop capacity procurement authority to lapse in February 2016. As the CAISO explained in its Section 205 filing in 2010 to implement CPM, “[i]t is imperative [to] have an orderly, pre-approved means to procure backstop capacity where and when needed to meet applicable reliability criteria or otherwise maintain reliable grid operations” and that the CAISO “must have the appropriate tools at its disposal under such circumstances to maintain reliable operations.”<sup>9</sup> Those statements apply with equal force now. In accepting a four-year CPM sunset timeline, the CAISO expected to work with stakeholders to develop a more durable backstop procurement mechanism that responds to the guidance the Commission provided in the CPM Order.

The CAISO included the matter of a permanent replacement for the expiring CPM in the scope of the Reliability Services stakeholder process, which began in January 2014.<sup>10</sup> In July 2014, the CAISO moved CPM replacement to a standalone stakeholder process.<sup>11</sup> The CAISO published several policy papers in the initiative on the premise that it would develop the CPM replacement as part of a traditional stakeholder process. As the initiative proceeded, the CAISO and several other stakeholders concluded that presenting CPM replacement to the Commission as a pre-negotiated settlement offer would benefit the CAISO, market participants, interested stakeholders, and the Commission by eliminating the litigation risk and reducing potential litigation burdens associated with authority the CAISO has used stingily. Since

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<sup>9</sup> *Cal. Indep. Sys. Operator Corp.*, Transmittal Letter, at 15, FERC Docket No. ER11-2256 (Dec. 1, 2010).

<sup>10</sup> <http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityServices.aspx>.

<sup>11</sup>

<http://www.caiso.com/informed/Pages/StakeholderProcesses/CapacityProcurementMechanismReplacement.aspx>.



the CPM was implemented on April 1, 2010, the CAISO has used its CPM authority only 12 times, seven of which were associated with the unexpected circumstances leading to the eventual closure of the San Onofre Nuclear Generating Station. Given the contentious history surrounding compensation for backstop capacity, the pattern of settlement proceedings, and the challenging jurisdictional issues that always accompany any type of ISO/RTO capacity procurement, stakeholders found it appropriate to transition from a stakeholder process to a settlement process in Fall 2014. All CAISO stakeholders were given the opportunity to participate in the settlement discussions.

Through November and December, the CAISO and a group of stakeholders held a series of in-person and telephonic meetings to negotiate the outline of a settlement agreement that would meet all parties' needs. As a result of the diligent and earnest efforts of all involved, the parties arrived at a settlement framework that, pending review of tariff language, earned multiple parties' tentative support. The CAISO held a public meeting to discuss the revised CPM framework that the CAISO and the stakeholders tentatively agreed upon. On February 5, 2015, CAISO Management presented that settlement to its Board of Governors and the Board provided authority for CAISO Management to proceed.<sup>12</sup> Multiple stakeholders, including Southern California Edison, Pacific Gas and Electric, the Independent Energy Producers Association, Calpine,

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<sup>12</sup> <http://www.caiso.com/Documents/DecisionCapacityProcurementMechanismFramework-Motion-Feb2015.pdf>.

NRG, and the California Public Utilities Commission, spoke at the Board meeting in support of the settlement agreement.<sup>13</sup>

In early January, nearly a month before the settlement framework was even presented to the Governing Board, the CAISO circulated an initial draft of the tariff language to stakeholders. The CAISO and parties went through two rounds of written comments and conference calls to finalize tariff language and ensure that it reflected the settlement principles. The CAISO posted the tariff drafts on its public website and the conference calls discussing those drafts were open to public participation.

Based on this intensive and consensus-driven process, the CAISO presents, with the full support or non-opposition of the specified stakeholders that participated in the CAISO's Capacity Procurement Mechanism replacement settlement process (Supportive Stakeholders) the Offer of Settlement and this Explanatory Statement.<sup>14</sup>

## **2. OVERVIEW OF OFFER OF SETTLEMENT AND REVISED TARIFF PROVISIONS**

Pursuant to section 2.1 of the Offer of Settlement, the Offer of Settlement resolves all issues associated with the proposed replacement of the existing CPM, except for whether the non-contracted capacity of a resource committed by the CAISO

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<sup>13</sup> All Supportive Stakeholders indicated that their organization's final support or non-opposition was tentative based on final development of the tariff language.

<sup>14</sup> Each Supportive Stakeholder has authorized the CAISO to state that such party supports the Offer of Settlement or does not oppose it. The Supportive Stakeholders are: Alliance for Retail Energy Markets; California Department of Water Resources State Water Project; California Large Energy Consumers Association; Public Utilities Commission of the State of California; Calpine Corporation; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Constellation; Dynegy; EnerNoc; Independent Energy Producers Association; Northern California Power Agency; NRG Energy, Inc.; Office of Ratepayer Advocates; Pacific Gas and Electric Company; San Diego Gas & Electric Company; Southern California Edison Company; and Western Power Trading Forum.

market software to meet a minimum online commitment constraint should receive a CPM designation. That issue will be addressed based on Supportive Stakeholders' pleadings in this proceeding or in a different proceeding. All remaining issues will be resolved fully by the Commission's acceptance of the Offer of Settlement and issuance of an order that accepts, without modification or condition, the revised tariff provisions that are included as Attachments A and B to the CAISO filing (Settlement Order). The Offer of Settlement proposes that the revised tariff provisions become effective on March 1, 2016 and stay in effect until revised by subsequent Commission order.

Nothing in the Offer of Settlement is intended to prejudice or limit any of the following: (1) the CAISO's authority to make a filing with the Commission pursuant to Section 205 of the Federal Power Act, or Supportive Stakeholders' exercise of their rights under Federal Power Act Sections 205 or 206, regarding any capacity procurement, irrespective of whether that procurement is subject to Section 43 of the CAISO Tariff, as it exists as of the Settlement Order Date; or (2) the CAISO's authority to propose for such new CPM Capacity procurement any compensation or other provisions, which may be the same as or different from the CAISO Tariff, as it exists as of the Settlement Order Date; provided that, pursuant to New Tariff Section 43A.4.1.1.2, if the CAISO proposes to alter the CPM Soft Offer Cap but does not alter the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20 percent adder to costs to set the CPM Soft Offer Cap, then any party challenging the CAISO's retention of those elements shall bear the burden of showing that maintaining the unaltered element would be unjust, unreasonable, unduly discriminatory or preferential, or otherwise contrary to law.

The revised tariff provisions were negotiated by the Supportive Stakeholders as a package and the Commission is asked to accept the revised tariff provisions as a package resolving all potentially litigated issues surrounding the CAISO's revised CPM Capacity procurement authority. The Offer of Settlement will not have any precedential effect.

## **2.1 Competitive Solicitation Processes**

The core change implemented through the Offer of Settlement is how the CAISO will select the capacity to receive CPM designations and how that capacity will be compensated. Under New Tariff Section 43A, designation of CPM Capacity, other than Risk-of-Retirement designations, will be made through a Competitive Solicitation Process (CSP). The CAISO will operate three separate CSPs – one in the year-ahead timeframe (Annual CSP), one in the month-ahead timeframe (Monthly CSP), and one during the delivery month (Intra-monthly CSP). The CAISO will use the Annual CSP to grant CPM designations to address insufficient cumulative local, system, or flexible capacity in annual Resource Adequacy plans, and collective deficiencies in local areas. The CAISO will use the Monthly CSP to grant CPM designations to address insufficient cumulative local, system, or flexible capacity in monthly Resource Adequacy plans, and as permitted in Section 9.3.1.3.2.5 of the CAISO Tariff (or its successor provision). The CAISO will use the Intra-monthly CSP to grant CPM designations to address significant events and exceptional dispatches. The CAISO will retain the existing process for granting Risk-of-Retirement CPMs and this process was not the subject of the settlement discussions. Unlike the other six categories of CPM, a Risk-of-Retirement designation cannot be met by first defining a system need and then evaluating the

universe of resources that can meet the need. It is an inherently resource-specific process and thus not amenable to a competitive solicitation process.

Scheduling Coordinators for Eligible Capacity will submit offers to the CSP from which they wish to receive a designation. When the CAISO needs to grant a CPM designation, it will identify the pool of Eligible Capacity with offers to the CSP that can meet the CPM need. The CAISO will then designate CPM capacity “in order to minimize the overall cost of meeting the CPM designation criteria.”

The CSP contemplated in the Offer of Settlement satisfies the four principles for evaluating competitive solicitation processes: transparency; defined products; standardized evaluation criteria; and independent oversight.<sup>15</sup> The competitive solicitation is open, the rules are clear and just and reasonable, and the CAISO will make public all of its CPM designations, including price and the reasons therefor. The tariff clearly defines the CPM product and the CPM categories. There are standardized evaluation criteria that the CAISO will apply to all bidders. The CAISO, an independent entity, will oversee the solicitation in accordance with its tariff.

## **2.2 General Rationale for CPM Compensation**

Under New Section 43A.7, CPM Capacity will receive compensation based on the product of the quantity of CPM Capacity designated and either its bid, the CPM Soft Offer Cap, or a Commission-approved resource-specific rate. This differs in two key respects from the current CPM. First, compensation is based on accepted offers, rather

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<sup>15</sup> *Allegheny Energy Supply Co., LLC*, 108 FERC ¶ 61,082, P 22 (2004).

than an administrative price. Second, the compensation will no longer be based on the CPM Availability Factor.

Basing compensation on accepted offers is important in two respects. It reflects the Commission's prior guidance that CPM compensation reflect changes in market conditions.<sup>16</sup> Also, a pay-as-bid approach, rather than a single clearing price, reflects the unique nature of the CSPs. CSPs are intended only as a backstop procurement mechanism, and the CAISO typically relies on CPM to procure resources to respond to unexpected, unplanned for system conditions or meet unique reliability needs that might occur at a given point in time. The CSPs will not be general capacity clearing markets like those in place in the eastern ISOs and RTOs, and the CAISO is not typically procuring generic capacity. Furthermore, certain Supportive Stakeholders found the concept of a market for CPM with a single clearing price unacceptable. Generally, the CAISO designates CPM capacity based on specific characteristics such as location and resource capability.

New Section 43A.5.4 replaces the prior approach to shaping compensation based on an availability factor. Under this section, CPM Capacity will face a resource-specific Availability Incentive Mechanism Price that will be designed to capture the CPM Capacity's availability.

### **2.3 The CPM Soft Offer Cap Provides A Reasonable Opportunity for Resources to Recover their Costs, While Mitigating Market Power**

The CPM Soft Offer Cap initially will be set at \$75.68/kW-year (\$6.31/kW-month). This value is the estimated levelized going-forward fixed costs for a mid-cost, merchant-

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<sup>16</sup> CPM Order at P 205.

constructed 550 MW combined cycle unit with duct firing resource (the “reference resource”), plus 20 percent of those costs. Resources will be permitted to justify to FERC a price higher than the CPM Soft Offer Cap based on their demonstrated costs. The costs of the reference resource are based on a California Energy Commission model reflected in a May 2014 draft staff report.<sup>17</sup> The CEC study not only examines the costs of new generation in California, but it also captures data on the going-forward fixed costs (*i.e.*, *ad valorem* costs, insurance, and fixed costs) associated with existing generation. The CAISO previously has relied on the CEC’s generation costs studies for purposes of establishing the backstop capacity price under the RCST, ICPM, and CPM.

The pricing formula under the Offer of Settlement is consistent with the guidance the Commission provided in the CPM Order. The Commission stated that a compensation methodology should provide “at a minimum, a meaningful opportunity for CPM resources to recover additional fixed costs” and “support incremental investment by existing resources.”<sup>18</sup> The Commission added that paying “going forward costs may create the potential for distorted pricing signals and deny resources a reasonable opportunity to recover fixed costs.”<sup>19</sup>

The going-forward costs relied upon in determining the CPM Soft Offer Cap do not account for the costs of major upgrades, improvements, or other capital investments or capital costs of existing resources. To better provide for fixed cost recovery by existing resources, the CPM Soft Offer Cap includes a 20 percent adder to the going-

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<sup>17</sup> CAL. ENERGY COMM’N, *Estimated Cost of New Renewable and Fossil Generation in California*, CEC-200-2014-003-SD (May 2014), available at: <http://www.energy.ca.gov/2014publications/CEC-200-2014-003/CEC-200-2014-003-SD.pdf>.

<sup>18</sup> *Id.* at PP 57, 59.

<sup>19</sup> *Id.* at P 57.

forward fixed costs of the reference resource. To the extent the CPM Soft Offer Cap does not provide a resource with an opportunity to recover its fixed costs, resources have the opportunity to justify a higher rate using the formula applicable to Reliability Must Run resources. The reliability must run formula accounts for all fixed costs, not only going-forward fixed costs.

The transition from administrative pricing to competitive pricing also raises the need for some form of market power mitigation. Because there may be a limited pool of non-Resource Adequacy resources available to meet a given reliability need, the potential exists for resources to exercise market power. Without some form of mitigation, resources that are uniquely situated to resolve a foreseeable reliability need might have an incentive to submit bids as high as possible. The CPM Soft Offer Cap serves as that needed mitigation.

The proposed mitigation recognizes that an overly elaborate, complex, and costly mitigation scheme is unwarranted under the circumstances. The CPM Soft Offer Cap essentially serves as a reasonable damage-control bid cap. It has a cost basis. Also, the initial level of the CPM Soft Offer Cap is only slightly higher than the administrative price that is currently paid to all CPM resources – \$70.88/kW-year. The CPM Soft Offer Cap will prevent excessive compensation by reasonably limiting how high a resource can offer to a CSP. At the same time, the cap level is set reasonably high enough to minimize the number of individual Section 205 cost justification filings that might be made. That will promote efficiency and eliminate burdens associated with developing and establishing proceedings to set prices for individual resources in connection with a



mechanism that is rarely used and, when used, typically only results in designations for short periods.

#### **2.4 A Single Offer Cap for All Capacity Types in all CSPs**

The same CPM Soft Offer Cap will apply to all capacity types (system, local, flexible) and all competitive solicitation processes (Annual, Monthly, Intra-monthly). A single offer cap for all products in all CSPs ensures that offers are in line with what the CAISO would expect from existing resources in a competitive environment. There is a broad range of capacity costs, and no single price will perfectly represent a competitive price for every resource. Competitive costs will reflect a number of variables, including, but not limited to: contract details, location, resource-specific costs, maintenance schedules, term of the CPM designation, and market conditions. These variables are also time- and CPM-event specific.

The set of available resources that can meet the CAISO's specific needs will vary based on when the CPM event occurs, what resource characteristics the CAISO needs to resolve the reliability issue, and whether the CAISO needs capacity in a specific location. Until a CPM event occurs, there is no way to predict the specific marginal backstop resource to address that need. Therefore, using a single soft offer cap price limits the exertion of market power, while allowing resources an opportunity to recover their reasonable costs.

#### **2.5 Periodic Updates to the CPM Soft Offer Cap**

A key design principle is that the CPM needs to be durable. A static CPM Soft Offer Cap would undermine that goal because as costs change over time, the price may no longer reflect the cost of service for the reference unit. New section 43A.4.1.1.2

requires the CAISO to hold a stakeholder process at least every four years to review the CPM Soft Offer Cap. The Supportive Stakeholders intend the stakeholder process to start with the CEC's publication of a new draft of its Cost of Generation Study and Model (or similar study) that sets forth estimates for the levelized going-forward fixed costs of a hypothetical mid-cost, merchant-constructed 550 MW combined cycle unit with duct firing, or similar advanced combined cycle resource. If the CEC has not issued a draft report within the 46-month period, then the CAISO must start the stakeholder process before the end of the four-year period.

New Section 43A.4.1.1.2 does not obligate the CAISO to update the CPM Soft Offer Cap. Instead, it obligates the CAISO to initiate a stakeholder process to evaluate whether the CPM Soft Offer Cap should be updated. Specifically, the stakeholder process will consider whether the CPM Soft Offer Cap adequately reflects the levelized going-forward fixed costs of the reference resource, plus 20 percent or whether it requires updating based on the study results available. The stakeholder process also may, but need not, consider what resource serves as the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20 percent adder to costs to set the CPM Soft Offer Cap. If the CAISO determines through the stakeholder process that the CPM Soft Offer Cap warrants amendment, then it will make a filing with the Commission under section 205 of the Federal Power Act requesting such amendment. If through its filing the CAISO does not propose to change the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20 percent adder to costs to set the CPM Soft Offer Cap, then any party that challenges the CAISO's retention of

those elements of the CPM Soft Offer Cap will bear the burden of showing that maintaining the unaltered element would be unjust, unreasonable, unduly discriminatory or preferential, or otherwise contrary to law.

## **2.6 Key Design Elements Carried Over from Current CPM**

The Offer of Settlement proposes to maintain many core aspects of the CAISO's current CPM that the Commission already has determined to be "fair and reasonable and in the public interest."<sup>20</sup> The proposed tariff maintains the seven existing categories of CPM Capacity procurement (*i.e.*, New Tariff Section 43A.2 and its subsections) and the term of such designations (*i.e.*, New Tariff Section 43A.3 and its subsections). The public notice and reporting requirements also stay largely the same (*i.e.*, New Tariff Section 43A.6 and its subsections), with conforming changes to address the changed nature of the CSPs as compared to administrative pricing. The obligations of capacity designated as CPM Capacity (*i.e.*, New Tariff Section 43A.5), the allocation of the costs of procuring CPM capacity (*i.e.*, New Tariff Section 43A.8), and crediting CPM Capacity to load serving entities (*i.e.*, New Tariff Section 43A.9) also remain largely the same.

## **2.7 Non-Tariff Settlement Issues**

The Offer of Settlement covers three additional mutual covenants and commitments that do not constitute a rate, term, or condition of service provided by the CAISO and, therefore, are not addressed in the revised tariff provisions. These commitments nevertheless are material terms of the overall settlement package and

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<sup>20</sup> CPM Settlement Order at P 18.

should be approved by the Commission in connection with its approval of the Offer of Settlement. The commitments are discussed in greater detail below.

### **2.7.1 Monitoring Use of CPM for Primary Procurement**

CPM is intended as a backstop procurement mechanism, and the CAISO has rarely used it. The CAISO has never before utilized the CPM or any precursor backstop mechanism to remedy an individual load serving entity's Resource Adequacy deficiency. The CAISO will monitor the use of the CPM to ensure that load serving entities are not relying on the CPM as a means of capacity procurement to meet Resource Adequacy obligations. The first time one of the two following conditions is met, the CAISO will open a stakeholder initiative to explore whether load serving entities have relied on the CPM, to an unacceptable extent, as a primary means of capacity procurement:

- (1) Within a rolling 24-month period, the same load serving entity twice relies on the CPM to meet any Resource Adequacy deficiency (either in an annual or monthly Resource Adequacy plan).
- (2) Any load serving entity meets more than 50 percent of its annual or monthly Resource Adequacy obligation for a year or month, respectively, with CPM Capacity procured by the CAISO on that load serving entity's behalf.

The stakeholder initiative that would occur if either condition were met would consider the CPM designation(s) that triggered the initiative and possible measures designed to avoid future load serving entity reliance on the CPM in lieu of forward capacity procurement. The stakeholder initiative will not seek to adjudicate the conduct of an individual load serving entity's capacity procurement decisions.

### **2.7.2 Total Payments Above CPM Soft Offer Cap for Providing Multiple Types of CPM Capacity**

The revised tariff provisions permit a resource providing Resource Adequacy capacity other than flexible Resource Adequacy capacity to a load serving entity through a Resource Adequacy contract to also receive a Flexible Capacity CPM designation for a flexible capacity Resource Adequacy deficiency. In such a circumstance, the capacity could receive total payment in excess of the CPM Soft Offer Cap. The Supportive Stakeholders agree that in the absence of a Commission-approved resource-specific filing, compensation for providing CPM Capacity should not provide a resource with total payments above the CPM Soft Offer Cap. Therefore, where capacity receives a Flexible Capacity CPM designation, the CAISO will consult with the relevant Local Regulatory Authority to determine whether the capacity received total payment above the CPM Soft Offer Cap. The CAISO will make its findings public through a market notice or similar type of communication. If the CAISO concludes that the capacity's total compensation exceeded the CPM Soft Offer Cap, then it will start a stakeholder initiative to explore any potential issues created by the multiple payments and consider possible mitigation measures to address the issue.

Supportive Stakeholders also agree that the likelihood of the need to backstop for Flexible Resource Adequacy capacity is very low, and therefore desire to monitor any CPM designations for flexible capacity Resource Adequacy deficiencies. Supportive Stakeholders agree that a total payment in excess of the CPM Soft Offer Cap would likely represent an unnecessary ratepayer cost that is to be avoided.

### **2.7.3 CPM Designation Procedures for Deficiencies in Multi-Year Forward Procurement**

Neither the CPUC nor any other Local Regulatory Authority currently requires its jurisdictional load serving entities to meet multi-year forward Resource Adequacy requirements. If the CPUC or another Local Regulatory Authority were to adopt multi-year forward Resource Adequacy procurement requirements, then the CAISO would initiate a stakeholder process to consider adding a new category of CPM designation to provide the CAISO authority to procure backstop capacity where a load serving entity procures insufficient multi-year forward capacity. That stakeholder initiative would also consider whether any corresponding changes to the CAISO's Risk-of-Retirement CPM designation might also need to be made.

## **3. ADDITIONAL INFORMATION**

### **3.1 What are the issues underlying the settlement and what are the major implications?**

The factual and procedural background of this proceeding, the issues underlying this proceeding, and the major implications of this proceeding have been summarized in Sections 1 and 2 above. The Offer of Settlement states that it is a negotiated settlement, that its terms have no precedential value, and that it sets no precedent regarding future rates. The Offer of Settlement resolves all potential issues in a potential litigated docket except for the single issue regarding non-contracted capacity committed through a minimum online commitment constraint.

### **3.2 Do any of the issues raise policy implications?**

The Offer of Settlement furthers the broad public interest favoring

Settlements.<sup>21</sup> The CPM is unique to the CAISO, and compensation for CAISO backstop procurement has been the subject of two prior settlements. Beyond that, the Offer of Settlement does not raise generally applicable policy implications.

**3.3 Will other pending cases be affected?**

No.

**3.4 Does the settlement involve issues of first impression, or are there any previous reversals on the issues involved?**

The Offer of Settlement involves no issues of first impression, and there are no previous reversals on the issues involved in this proceeding.

**3.5 What is the standard of review of modifications to the Offer of Settlement?**

The Offer of Settlement and modifications thereto are subject to the just and reasonable standard of review and not to the *Mobile Sierra* public interest standard.

**4. DUE DATE FOR COMMENTS**

In accordance with Rule 602, 18 C.F.R. § 385.602(c)(1)(ii), initial comments on the Offer of Settlement are due 20 days after filing, and reply comments are due 10 days thereafter.

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<sup>21</sup> See *Southern Union Gas Co. v. FERC*, 840 F.2d 964, 971 (D.C. Cir. 1988).

**Attachment D**

**Comparison of Existing Section 43 Language with Proposed Section 43A Language**

**California Independent System Operator Corporation**



## 43. Capacity Procurement Mechanism

### 43.1 ~~[Not Used]~~ Applicability

#### ~~43.1.1 Capacity Procurement Mechanism Expiration~~

~~The CPM as well as changes made to other Sections to implement the CPM shall expire at midnight on the last day of the forty-eighth month following the effective date of this Section. CPM designations in existence on the expiration date shall continue in effect and remain subject to the CPM, including the provisions concerning compensation, cost allocation and Settlement, until such time as the CPM resources have been finally compensated for their services rendered under the CPM prior to the termination of the CPM, and the CAISO has finally allocated and recovered the costs associated with such CPM compensation. This Section shall also apply to the Flexible Capacity CPM provisions in Section 43 and any Flexible Capacity CPM designations in existence on the expiration date.~~

This Section shall apply to all designations of Eligible Capacity to provide CPM Capacity services under the CPM that commence on or after March 1, 2016.

### 43.2 Capacity Procurement Mechanism Designation

The CAISO shall have the authority to designate Eligible Capacity to provide CPM Capacity services under the CPM to address the following circumstances, as discussed in greater detail in Section 43:

1. Insufficient Local Capacity Area Resources in an annual or monthly Resource Adequacy Plan;
2. Collective deficiency in Local Capacity Area Resources;
3. Insufficient Resource Adequacy Resources in an LSE's annual or monthly Resource Adequacy Plan;
4. A CPM Significant Event;
5. A reliability or operational need for an Exceptional Dispatch CPM;
6. Capacity at risk of retirement within the current RA Compliance Year that will be needed for reliability by the end of the calendar year following the current RA Compliance Year; and

7. A cumulative deficiency in the total Flexible RA Capacity included in the annual or monthly Flexible RA Capacity Plans, or in a Flexible Capacity Category in the monthly Flexible RA Capacity Plans.

#### **43.2.1 SC Failure To Show Sufficient Local Capacity Area Resources**

##### **43.2.1.1 Annual Resource Adequacy Plan**

Where a Scheduling Coordinator fails to demonstrate in an annual Resource Adequacy Plan, submitted separately for each represented LSE, procurement of each LSE's share of Local Capacity Area Resources, as determined in Section 40.3.2 for each month of the following Resource Adequacy Compliance Year, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43.2.1.1 until after the Scheduling Coordinator has had the opportunity to cure the deficiency set forth in Section 40.7. The CAISO's authority to designate CPM Capacity under this Section 43.2.1.1 is to ensure that each Local Capacity Area in a TAC Area in which the LSE serves Load has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area.

##### **43.2.1.2 Monthly Resource Adequacy Plan**

Where a Scheduling Coordinator fails to demonstrate in a monthly Resource Adequacy Plan, submitted separately for each represented LSE, procurement of each LSE's share of Local Capacity Area Resources, as determined in Section 40.3.2 for the reported month, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43.2.1.2 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7. The CAISO's authority to

designate CPM Capacity under this Section 43.2.1.2 is to ensure that each Local Capacity Area in a TAC Area in which the LSE serves Load has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of all Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted ~~annual and~~ monthly Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7, ~~whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area.~~

### **43.2.2 Collective Deficiency In Local Capacity Area Resources**

The CAISO shall have the authority to designate CPM Capacity where the Local Capacity Area Resources specified in the annual Resource Adequacy Plans of all applicable Scheduling Coordinators, after the opportunity to cure under Section 43.2.2.1 has been exhausted, fail to ensure compliance in one or more Local Capacity Areas with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, regardless of whether such resources satisfy, for the deficient Local Capacity Area, the minimum amount of Local Capacity Area Resources identified in the Local Capacity Technical Study, and after assessing the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area. The CAISO may, pursuant to this Section 43.2.2, designate CPM Capacity in an amount and location sufficient to ensure compliance with the Reliability Criteria applied in the Local Capacity Technical Study.

#### **43.2.2.1 LSE Opportunity to Resolve Collective Deficiency in Local Capacity Area Resources**

Where the CAISO determines that a need for CPM Capacity exists under Section 43.2.2, but prior to any designation of CPM Capacity, the CAISO shall issue a Market Notice identifying the deficient Local Capacity Area and the quantity of capacity that would permit the deficient Local Capacity Area to comply with the Local Capacity Technical Study criteria provided in Section

40.3.1.1 and, where only specific resources are effective to resolve the Reliability Criteria deficiency, the CAISO shall provide the identity of such resources. Any Scheduling Coordinator may submit a revised annual Resource Adequacy Plan within thirty (30) days of the beginning of the Resource Adequacy Compliance Year demonstrating procurement of additional Local Capacity Area Resources consistent with the Market Notice issued under this Section. Any Scheduling Coordinator that provides such additional Local Capacity Area Resources consistent with the Market Notice under this Section shall have its share of any CPM procurement costs under Section 43.7.8.3 reduced on a proportionate basis. If the full quantity of capacity is not reported to the CAISO under revised annual Resource Adequacy Plans in accordance with this Section, the CAISO may designate CPM Capacity sufficient to alleviate the deficiency.

#### **43.2.3 SC Failure To Show Sufficient Resource Adequacy Resources**

The CAISO shall have the authority to designate CPM Capacity where a Scheduling Coordinator fails to demonstrate in an annual or monthly Resource Adequacy Plan, submitted separately for each represented LSE, procurement of sufficient Resource Adequacy Resources to comply with each LSE's annual and monthly Demand and Reserve Margin requirements under Section 40; provided that the CAISO shall not designate CPM Capacity under this Section 43.2.3 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7; provide further that the CAISO shall not designate CPM Capacity under this Section 43.2.3 unless there is an overall net deficiency in meeting the total annual or monthly Demand and Reserve Margin requirements, whichever is applicable, after taking into account all LSE demonstrations in their applicable or monthly Resource Adequacy Plans.

#### **43.2.4 CPM Significant Events**

The CAISO may designate CPM Capacity to provide service on a prospective basis following a CPM Significant Event, to the extent necessary to maintain compliance with Reliability Criteria and taking into account the expected duration of the CPM Significant Event.

#### **43.2.5 Exceptional Dispatch CPM**

~~Except as provided in Section 43.2.5.1, t~~The CAISO shall designate as CPM Capacity to provide service on a prospective basis the capacity of a resource that responds to an Exceptional

Dispatch if the Exceptional Dispatch is issued pursuant to Section 34.119.1, subsections (6), (9) or (10) of Section 34.911.2, or Section 34.119.3, unless the Exceptional Dispatch directs the curtailment or shut down of the resource.

**43.2.5.1 ~~[Not Used] Limitation on Eligibility for Exceptional Dispatch CPM~~**

**Designation**

~~The following capacity is not eligible to receive an Exceptional Dispatch CPM designation under this Section 43.2.5.1:~~

~~(1) RA Capacity, RMR Capacity, and CPM Capacity; and~~

~~(2) Capacity of a resource that is eligible to receive supplemental revenues under Section 39.10.3 during any month for which the resource has notified the CAISO under Section 39.10.3 that it chooses to receive supplemental revenues in lieu of an Exceptional Dispatch CPM designation~~

**43.2.5.2 Quantity of Capacity included in an Exceptional Dispatch CPM Designation**

**43.2.5.2.1 Exceptional Dispatch ~~Commitments~~ of ~~Non-RA, Non-RMR and Non~~**

**CPM Eligible Resources Capacity**

~~If Eligible Capacity receives an Exceptional Dispatch CPM designation under Section 43.2.5, then~~

~~If a resource does not have any self-schedule, market-based commitment, or RA, RMR or CPM~~

~~Capacity and receives an Exceptional Dispatch CPM designation under Section 43.2.5 following~~

~~an Exceptional Dispatch eligible for a CPM designation, the CAISO shall designate as CPM~~

Capacity the greater of the resource's PMin of the resource providing the capacity or the quantity

of capacity needed from the resource providing the capacity (beyond whatever quantity of

capacity is already Committed RA Capacity, capacity subject to a RMR Contract, or has been

subject to a self-schedule or market-based commitment at the time of the Exceptional Dispatch)

to address the reliability issue as determined in an engineering assessment ~~if available at that~~

~~time.~~

For designations made in the post-day ahead timeframe, the CAISO will make an initial determination of the quantity of Exceptional Dispatch CPM Capacity and will subsequently make a post-day ahead reliability assessment of the amount of capacity needed to address the

reliability issue, as set forth in the Business Practice Manuals. If the post-day ahead reliability assessment shows that no additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the resource will be compensated based on the initial quantity of Exceptional Dispatch CPM Capacity designated. If the post-day ahead reliability assessment shows that additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the CAISO will designate the incremental quantity of capacity, will treat the initial and incremental quantities of the Exceptional Dispatch CPM Capacity as a single designation effective as of the date of the initial designation, and will compensate the resource based on the sum of the initial and incremental quantities of the Exceptional Dispatch CPM Capacity for the term of the designation. Any incremental Exceptional Dispatch CPM Capacity designated under this section does not result in a new thirty (30) day term or sixty (60) - day term, as applicable.

**43.2.5.2.2 ~~Exceptional Dispatch of Partial RA, Partial CPM Unit, or Market Committed Resource~~[Not Used]**

~~If a resource is a Partial Resource Adequacy Resource, has a CPM designation of less than its entire capacity, has a Self Schedule or has a market based commitment, or has already received an Exceptional Dispatch CPM designation under Section 43.2.5, the CAISO shall designate as CPM Capacity the amount by which the quantity of capacity needed from the resource to address the reliability issue exceeds the greater of—~~

~~(1) —the capacity that the resources must make available to the CAISO as the result of an RA Capacity or CPM Capacity obligation; if any; and~~

~~(2) —the sum of any Self Schedule and any market-based commitment or dispatch of the resource.~~

**43.2.5.2.3 Subsequent Exceptional Dispatch**

If the CAISO, during the term of a resource's Exceptional Dispatch CPM designation, issues a subsequent Exceptional Dispatch to the resource that exceeds the sum of the resource's CPM Capacity and RA Capacity, the subsequent Exceptional Dispatch CPM Capacity shall equal the

difference between the quantity of capacity needed from the resource to address the reliability issue, as determined in an engineering assessment conducted as set forth in the Business Practice Manuals, and the sum of the resource's CPM Capacity and RA Capacity, but not to exceed the resource's Eligible Capacity. The increase will be effective for the remainder of the initial Exceptional Dispatch CPM Term and retroactively to the beginning of the initial Exceptional Dispatch CPM Term or the first day of the month in which the increase occurs, whichever is later. Any incremental Exceptional Dispatch issued within any Exceptional Dispatch CPM Term does not result in a new 30-day term or 60-day term, as applicable. The total Exceptional Dispatch CPM Capacity shall be compensated based on the results of the Intra-monthly CSP in which the initial Exceptional Dispatch CPM Capacity was designated as CPM Capacity.

#### **43.2.5.2.4 Change in RA, RMR or CPM Status**

If a resource has an RA, RMR or CPM Capacity obligation that pre-existed the resource's Exceptional Dispatch CPM designation and, during the term of the resource's Exceptional Dispatch CPM designation, the amount of the resource's RA, RMR or CPM Capacity is reduced, the CAISO will increase the CPM designation by the amount, if any, necessary to ensure that the sum of Exceptional Dispatch CPM designation quantity and any remaining RA Capacity is not less than PMin. If capacity that receives an Exceptional Dispatch CPM designation becomes RA Capacity or receives a monthly CPM designation or Significant Event designation or receives an RMR Contract as of a certain date, then the Exceptional Dispatch CPM designation shall be reduced by the amount of the new RA Capacity, CPM Significant Event designation, or RMR Contract from that date through the rest of the ~~30-day term~~ CPM designation term.

#### **43.2.5.3 Consequences of Declining an Exceptional Dispatch CPM Designation**

If capacity that was not offered into the Intra-monthly CSP is offered an Exceptional Dispatch CPM designation and declines the designation, then the resource shall be compensated based on supplemental revenues under Sections 39.10 and 11.5.6.7.

#### 43.2.6 Capacity At Risk Of Retirement Needed For Reliability

The CAISO shall have the authority to designate CPM Capacity to keep a resource in operation that is at risk of retirement during the current RA Compliance Year and that will be needed for reliability- by the end of the calendar year following the current RA Compliance Year. The CAISO may issue this risk of retirement CPM designation in the event that all of the following requirements apply:

- (1) the resource was not contracted as RA Capacity nor listed as RA Capacity in any LSE's annual Resource Adequacy Plan during the current RA Compliance Year;
- (2) the CAISO did not identify any deficiency, individual or collective, in an LSE's annual Resource Adequacy Plan for the current RA Compliance Year that resulted in a CPM designation for the resource in the current RA Compliance Year;
- (3) CAISO technical assessments project that the resource will be needed for reliability purposes, either for its locational or operational characteristics, by the end of the calendar year following the current RA Compliance Year;
- (4) no new generation is projected by the CAISO to be in operation by the start of the subsequent RA Compliance Year that will meet the identified reliability need;  
~~and~~
- (5) the resource owner submits to the CAISO and DMM, at least 180 days prior to terminating the resource's PGA or removing the resource from PGA Schedule 1, a request for a CPM designation under this Section 43.2.6 including an offer price consistent with Section 43.4.1.1 and the affidavit of an executive officer of the company who has the legal authority to bind such entity, with the supporting financial information and documentation discussed in the BPM for Reliability Requirements, that attests that it will be uneconomic for the resource to remain in service in the current RA Compliance Year and that the decision to retire is definite unless CPM procurement occurs; and



(6) the Scheduling Coordinator for the resource has offered all Eligible Capacity from the resource into all CSPs for the current RA year.

If the CAISO determines that all of the requirements have been met, prior- to issuing the CPM designation, the CAISO shall prepare a report that explains the basis and need for the CPM designation. The CAISO shall post the report on the CAISO's Website and allow an opportunity of no less than seven (7) days for stakeholders to review and submit comments on the report and no less than thirty (30) days for an LSE to procure Capacity from the resource. If an LSE does not, within that period, procure sufficient RA Capacity to keep the resource in operation during the current RA Compliance Year, the CAISO may issue the risk of retirement CPM designation; provided that the CAISO determines that the designation is necessary and that all other available procurement measures have failed to procure the resources needed for reliable operation. The CAISO will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs.

#### **43.2.7 Cumulative Deficiency in Flexible RA Capacity**

- (a) **Annual Plans.** A cumulative deficiency will exist in the annual LSE Flexible RA Capacity Plans if the total amount of Flexible RA Capacity shown in the plans of all Load Serving Entities, based on the Effective Flexible Capacity value determined by the CAISO for each resource, is less than 90 percent of the annual Flexible Capacity Need determined by the CAISO pursuant to Section 40.10.1.
- (b) **Monthly Plans.** A cumulative deficiency will exist in the monthly Flexible RA Capacity Plans --
- (1) if the total amount of Flexible RA Capacity shown in the plans of all Load Serving Entities, limited on a collective basis to the maximum monthly requirement for each category and based on the Effective Flexible Capacity value determined by the CAISO for each resource, is less than the applicable monthly Flexible Capacity Need determined by the CAISO pursuant to Section 40.10.1; or
  - (2) if the total amount of Flexible RA Capacity shown in the base ramping Flexible

Capacity Category in the plans of all Load Serving Entities, based on the Effective Flexible Capacity value determined by the CAISO for each resources, on a collective basis is less than the minimum monthly requirement for the base ramping Flexible Capacity Category determined by the CAISO pursuant to Section 40.10.1.4.

#### **43.2.7.1 Final Opportunity to Resolve Deficiency**

If the processes set forth in Section 40.10.5.4, 40.10.5.5, and 40.10.5.6 do not fully resolve a deficiency or discrepancy in the annual or monthly Flexible RA Capacity Plans, and if the CAISO determines that a cumulative deficiency exists under Section 43.2.7 and that there is a need for Flexible Capacity CPM, but prior to issuing a Flexible Capacity CPM designation for the cumulative deficiency –

- (1) the CAISO shall (i) issue a Market Notice that describes the cumulative deficiency and specifies the quantity of Flexible RA Capacity necessary to meet the applicable Flexible Capacity Need, and (ii) notify the Load Serving Entities that are deficient and the Local Regulatory Authority with jurisdiction over each deficient Load Serving Entity;
- (2) a Scheduling Coordinator for a Load Serving Entity that is deficient, or for a Load Serving Entity subject to the jurisdiction of a Local Regulatory Authority that is deficient, may submit a revised annual or monthly Flexible RA Capacity Plan to demonstrate procurement of additional Flexible RA Capacity consistent with the Market Notice issued under this Section; but shall not include any other revisions in a plan submitted under this Section. A revised annual Flexible RA Capacity Plan must be submitted no later than December 31 for the following calendar year. A revised monthly Flexible RA Capacity Plan must be submitted no less than five days prior to the first day of the applicable month.

#### **43.2.7.2 Designation**

After the opportunity to resolve the cumulative deficiency under Section 40.10.5.4 has been exhausted, if total required Flexible RA Capacity reported to the CAISO in revised annual or

monthly Flexible RA Capacity Plans does not meet the Flexible RA Capacity Need in accordance with this Section, the CAISO may issue a Flexible Capacity CPM designation in an amount sufficient to alleviate the deficiency.

### **43.3 Terms Of CPM Designation**

#### **43.3.1 SC Annual Plan Failure To Show Local Capacity Area Resources**

CPM Capacity designated under Section 43.2.1.1 shall have a minimum commitment term of one (1) month and a maximum commitment term of one (1) year, based on the period(s) of overall shortage as reflected in the annual Resource Adequacy Plans that have been submitted. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

#### **43.3.2 SC Month Plan Failure To Show Local Capacity Area Resources**

CPM Capacity designated under Section 43.2.2.2 shall have a minimum commitment term of one (1) month. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

#### **43.3.3 Annual Plan Collective LCA ~~Resources~~Resources Insufficient**

CPM Capacity designated under Section 43.2.2 shall have a minimum commitment term of one (1) month and a maximum commitment term of one year, based on the period(s) of overall shortage as reflected in the annual Resource Adequacy Plans that have been submitted. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

#### **43.3.4 SC Failure To Show Sufficient Resource Adequacy Resources**

CPM Capacity designated under Section 43.2.3 shall: (a) have a minimum commitment term of one (1) month and a maximum commitment term equal to the maximum annual procurement period established by the Local Reliability Authority based on the period of the deficiency reflected in the annual Resource Adequacy Plan or (b) have a commitment term of one (1) month if the deficiency is in the monthly Resource Adequacy Plan. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year.

#### **43.3.5 Term – CPM Significant Event**

CPM Capacity designated under Section 43.2.4 shall have an initial term of thirty (30) days. If the CAISO determines that the CPM Significant Event is likely to extend beyond the thirty (30) day

period, the CAISO ~~shall~~ may offer to extend the designation for another sixty (60) days. This offer of extension to the Scheduling Coordinator may be accepted or denied. If the Scheduling Coordinator declines an offer to extend the designation for an additional sixty (60) days, then the CAISO shall re-run the Intra-monthly CSP based on the existing offers. The Scheduling Coordinator for the resource declining an extension of the CPM designation shall be given the opportunity to provide an offer to that re-run Intra-monthly CSP, provided the offer is below the offer price at which its initial thirty (30) day designation was granted. If the Scheduling Coordinator accepts an offer to extend the designation for an additional sixty (60) days, then the CPM Capacity shall continue to be compensated on the same terms as it was during the initial thirty (30) day designation. During this additional sixty (60) day period, the CAISO will provide Market Participants with an opportunity to provide alternative solutions to meet the CAISO's operational and reliability needs in response to the CPM Significant Event, rather than rely on the CAISO's designation of capacity under the CPM. The CAISO shall consider and implement, if acceptable to the CAISO in accordance with Good Utility Practice, such alternative solutions provided by Market Participants in a timely manner. If Market Participants do not submit any alternatives to the designation of CPM capacity that are fully effective in addressing the deficiencies in Reliability Criteria resulting from CPM Significant Event, the CAISO shall extend the term of the designation under Section 43.2.4 for the expected duration of the CPM Significant Event.

If the solutions offered by Market Participants are only partially effective in addressing the CAISO's operational and reliability needs resulting from the CPM Significant Event, the CAISO shall extend the designation under Section 43.2.4 for the expected duration of the CPM Significant Event, but only as to the amount of CPM Capacity necessary to satisfy the CAISO's operational and reliability needs after taking into account the effective capacity provided by the alternative solution. If there is a reasonable alternative solution that fully resolves the CAISO's operational and reliability needs, the CAISO will not extend the designation under Section 43.2.4.

### **43.3.6 Term – Exceptional Dispatch CPM**

The CAISO shall make an explicit determination for each initial Exceptional Dispatch CPM designation as to whether it was necessary to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need. Exceptional Dispatch CPM Capacity designated under Section 43.2.5 for an Exceptional Dispatch CPM System Reliability Need shall have an Exceptional Dispatch CPM Term of thirty (30) days. If the CAISO determines that the circumstances that led to the Exceptional Dispatch are likely to extend beyond the initial thirty (30) day period, the CAISO shall issue an Exceptional Dispatch CPM- or other CPM designation for an additional thirty (30) days.

Exceptional Dispatch CPM Capacity designated under Section 43.2.5 for an Exceptional Dispatch CPM Non-System Reliability Need shall have an Exceptional Dispatch CPM Term of sixty (60) days. If the CAISO determines that the circumstances that led to the Exceptional Dispatch are likely to extend beyond the initial sixty (60) day period, the CAISO shall issue an Exceptional Dispatch CPM -or other CPM designation for an additional sixty (60) days.

### **43.3.7 Term - Capacity At Risk Of Retirement Needed For Reliability**

A CPM designation for Capacity at risk of retirement under Section 43.2.6 shall have a minimum commitment term of one (1) month and a maximum commitment term of one (1) year, based on the number of months for which the capacity is to be procured within the current RA Compliance Year. ~~—~~The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year. The CAISO shall rescind the CPM designation for any month during which the resource is under contract with an LSE to provide RA Capacity.

### **43.3.8 Term – Flexible Capacity CPM Designation**

(a) **Annual Plan.** A Flexible Capacity CPM designation under Section 43.2.7 for the failure to show sufficient Flexible RA Capacity in an annual Flexible RA Capacity Plan shall have a minimum commitment term of one month and a maximum commitment term of one year, based on the period(s) of overall shortage reflected in the annual plans. The term of a Flexible Capacity CPM designation under this Section must begin and end during the same calendar year.

- (b) **Monthly Plan.** A Flexible Capacity CPM designation under Section 43.2.7 for the failure to show sufficient Flexible RA Capacity in a monthly Flexible RA Capacity Plan shall have a commitment term of one month. The term of a Flexible Capacity CPM designation under this Section must begin and end during the same calendar month.

#### **43.4 Selection Of Eligible Capacity Under The CPM through Competitive**

##### **Solicitation Processes (CSP) and General Eligibility Rules**

In accordance with Good Utility Practice, the CAISO shall designate and compensate Eligible Capacity as CPM Capacity based on the results of either the Annual CSP, the Monthly CSP, or the Intra-monthly CSP.

The CAISO shall designate CPM Capacity through the Annual CSP to meet designations triggered under sections 43.2.1.1, 43.2.2, or 43.2.3 (if the failure is to demonstrate sufficient Resource Adequacy capacity in an annual Resource Adequacy Plan), and 43.2.7(a) (if the failure is to demonstrate sufficient Flexible Resource Adequacy capacity in an annual Flexible Resource Adequacy Plan).

The CAISO shall designate CPM Capacity through the Monthly CSP to meet designations triggered under sections 43.2.1.2, 43.2.3 (if the failure is to demonstrate sufficient Resource Adequacy capacity in a monthly Resource Adequacy Plan), or 43.2.7(b) (if the failure is to demonstrate sufficient Flexible Resource Adequacy capacity in a monthly Flexible Resource Adequacy Plan).

The CAISO shall designate CPM Capacity through the Intra-monthly CSP to meet designations triggered under sections 43.2.4 or 43.2.5.

The selection criteria in this Section 43.4 shall not, however, apply to making a risk-of-retirement CPM designation under Section 43.2.6.

#### **43.4.1 Offer Rules to the CSPs**

##### **43.4.1.1 Price Component of a CSP Offer**

Offers of capacity to a CSP shall contain a single price denoted in units of \$/kW-month. The price offered into a CSP shall not be less than zero. Offer prices are subject to the CPM Soft Offer Cap

of \$6.31/kW-month (\$75.68/kW-year). CPM Capacity shall not be compensated by the CAISO at a rate higher than the CPM Soft Offer Cap unless a Resource Owner of Eligible Capacity makes the required resource-specific cost filing with FERC pursuant to Section 43.4.1.1.1.

**43.4.1.1.1 Exceeding CPM Soft Offer Cap through a Resource-Specific Cost Filing with FERC**

A Scheduling Coordinator for a resource may offer a price in excess of the CPM Soft Offer Cap. The resource owner whose capacity is offered in excess of the CPM Soft Offer Cap must justify in a filing to FERC a price above the CPM Soft Offer Cap, which shall be determined in accordance with the methodology for determining the Annual Fixed Revenue Requirement of an RMR unit as set forth in Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. For a resource whose sales are under FERC jurisdiction that is providing CPM Capacity to be compensated at a rate higher than the CPM Soft Offer Cap, the resource owner must make a limited resource-specific filing before FERC to determine the just and reasonable capacity price for the resource as calculated per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

If the sales from the resource are not under the jurisdiction of FERC, the resource owner shall make a non-jurisdictional filing with FERC to determine the just and reasonable capacity price for the going forward costs for the resource as calculated per Schedule F to the pro forma RMR Agreement in Appendix G of the CAISO Tariff. The resource owner must serve its filing on the CAISO within five business days of submitting its filing to FERC.

A resource owner may make a cost justification filing at FERC either before it offers a resource into the competitive solicitation process or after having capacity designated as CPM Capacity. If the resource owner has not made the cost justification filing before the capacity was designated as CPM Capacity, then the resource owner must make its cost justification filing with FERC within 30 days of the CPM designation. If the resource owner fails to make such cost justification filing within 30 days, then the CAISO shall deem the effective CPM Capacity price for the resource to be the CPM Soft Offer Cap. The resource owner may not propose – and shall not be

compensated based upon – an offer price higher than the price submitted in its bid to the CAISO for the designated capacity.

A FERC-approved resource-specific CPM Capacity price shall remain in effect for the remainder of the calendar year in which it is approved and for the subsequent two calendar years, unless superseded by a subsequent FERC-approved CPM Capacity price during that period. Although a FERC-approved resource-specific CPM Capacity price will be denoted in units of \$/kW-year, that \$/kW-year figure will be divided by 12 so that compensation will be in terms of \$/kW-month.

A resource that has obtained the appropriate FERC authorization in response to the cost justification filing described in this Section 43.4.1.1.1 for a rate higher than the CPM Soft Offer Cap is not precluded from submitting a bid into the competitive solicitation process that is below the FERC-authorized rate and, if selected pursuant to such a bid, will be compensated based on that lower bid.

#### **43.4.1.1.2 Periodic Updates to the CPM Soft Offer Cap**

For the purposes of this Section 43.4.1.1.2, the reference resource shall be a merchant-constructed mid-cost, 550 MW combined cycle with duct firing or similar advanced combined cycle resource.

The CAISO shall open a stakeholder process at least every four years to consider updating the CPM Soft Offer Cap. If the CEC has posted a new draft of its Cost of Generation Study and Model (or similar study or model) that includes results for the reference resource in the forty-six months since the last draft of the Cost of Generation Study and Model (or similar study or model) was published, then the stakeholder process will commence within 10 days of that posting. If the CEC has not posted draft results within that 46-month period, then the CAISO shall commence the stakeholder process by the end of that four-year review period and administer or commission a study of the levelized going-forward fixed costs of the reference resource. The CAISO shall use its best efforts to complete the stakeholder process within six (6) months of its commencement.

The stakeholder process shall consider whether the CPM Soft Offer Cap adequately reflects 120% of the levelized going-forward fixed costs of the reference resource at the time of the stakeholder initiative. The basis of such consideration shall be the final results from the CEC



Cost of Generation Study and Model (or similar study or model). If final results are not available for use in the stakeholder initiative, then the CAISO shall use published draft results. If there are no final or draft CEC study results available, then the CAISO shall use the results of a study it administered or commissioned of the levelized going-forward fixed costs of the reference resource.

The stakeholder process also may consider, but would not reassess automatically, either what resource serves as the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20% adder to costs to set the CPM Soft Offer Cap.

If the CAISO has determined through the stakeholder initiative that the value of the CPM Soft Offer Cap warrants amendment, then, subject to any necessary action(s) by the CAISO Governing Board, the CAISO shall petition FERC under section 205 of the Federal Power Act to change the CPM Soft Offer Cap.

If the CAISO, through that section 205 filing, does not alter either the reference resource, the components of fixed costs that are considered in setting the CPM Soft Offer Cap, or the use of a 20% adder to costs to set the CPM Soft Offer Cap, then any party that wishes to challenge the CAISO's retention of those elements of the CPM Soft Offer Cap shall bear the burden of showing that maintaining the unaltered element would be unjust, unreasonable, unduly discriminatory or preferential, or otherwise contrary to law.

#### **43.4.1.2 Quantity Component of a CSP Offer**

Offers to a CSP shall contain a single quantity denoted in units of kW-month representing the quantity of capacity being offered as RA Capacity and a single quantity denoted in units of kW-month representing the quantity of capacity being offered as Flexible RA Capacity. The entire quantity of capacity included in a Scheduling Coordinator's offer must be capacity over which the Scheduling Coordinator either: (1) holds ownership or contractual rights to offer into a CSP; or (2) has been authorized to offer into a CSP by the entity that holds ownership or contractual rights to that capacity.

The quantity of capacity offered into a CSP from a generating resource located outside the CAISO Balancing Authority Area shall not exceed the lesser of: (1) the Pmax of the resource providing the capacity; and (2) the allocated import capability held by the Scheduling Coordinator of the resource less any capacity of the resource that is Committed RA Capacity for the term covered by the CSP to which the capacity has been offered.

If an offer is for both Flexible Capacity and RA Capacity and the resource receives an annual or monthly CPM designation for one type of capacity, then in any following CSPs that overlap in time with the CPM designation, the CAISO, on behalf of the resource, automatically will offer the non-designated type of RA capacity into the overlapping CSP(s) at \$0/kW-month up to the minimum of the amount available as non-RA capacity and the amount of capacity originally designated.

#### **43.4.1.3 Exception to Offer Rules for Annual CSP – Different Prices for Different Months**

A Scheduling Coordinator for Eligible Capacity may offer into the Annual CSP varying prices in the form of \$/kW-month for different months of the Annual CSP if the Scheduling Coordinator wishes the CAISO to consider varying offer prices for individual months in the Annual CSP.

### **43.4.2 Administering the CSPs**

#### **43.4.2.1 Identifying Effective Resources**

In making a CPM designation the CAISO shall first establish the minimum criteria needed to meet the requirements for the type of CPM to be issued to resolve the underlying reliability need. The CAISO shall then identify all resources with offers into the CSP that can meet the minimum criteria. In determining whether a particular resource can meet the minimum criteria, the CAISO shall consider how any known or scheduled outages on the resource during the potential CPM designation period would impact the resource's ability to meet the minimum criteria.

If there is insufficient capacity offered into the CSP to meet the minimum designation criteria, then the CAISO shall evaluate whether any Eligible Capacity not offered into the CSP would allow the CAISO to meet the minimum designation criteria. If the CAISO must designate capacity not

offered in to the CSP to meet the minimum designation criteria, then for the purposes of operating the CSP, the CAISO shall consider the offer price for any such capacity to be the CPM Soft Offer Cap. A resource whose capacity was not offered into the CSP but nevertheless is deemed necessary to meet the minimum designation criteria shall have the option to request from FERC a resource-specific CPM Capacity price pursuant to Section 43.4.1.1.1 or, in the case of a potential Exceptional Dispatch CPM, the resource's Scheduling Coordinator may decline the CPM designation and be paid under the supplemental revenues option pursuant to Section 39.10. In the event that there is insufficient capacity to meet the minimum designation criteria from both resources offered into the CSP and resources not offered into the CSP, then the CAISO may reassess and lower the minimum criteria.

#### **43.4.2.2 Minimizing the Overall Cost of Meeting the Reliability Need**

Once the CAISO has identified the pool of resources that can meet the designation criteria, the CAISO shall then designate Eligible Capacity from that pool of resources in order to minimize the overall cost of meeting the designation criteria. Aside from considering the respective offer prices from the Eligible Capacity, as part of this cost minimization the CAISO also may consider: the quantity of a resource's available Eligible Capacity, based on a resource's PMin, relative to the remaining amount of capacity needed; and the quantity of a resource's available Eligible Capacity, based on outages and replacement or substitute daily RA Capacity.

For a potential Exceptional Dispatch CPM, the CAISO also shall consider the overall costs to the CAISO of issuing the Exceptional Dispatch to RA Capacity rather than to Eligible Capacity. If the CAISO determines it would minimize overall costs to issue the Exceptional Dispatch to RA Capacity, then the CAISO shall issue the Exceptional Dispatch to RA Capacity and not designate Eligible Capacity as CPM Capacity to meet the designation criteria.

If capacity would receive a CPM designation based on the cost minimization criteria but the resource from which the capacity would be provided faces use limitations such that the capacity, in the CAISO's reasonable discretion, poses the risk of being unavailable to fully meet the reliability need creating the CPM event, then the CAISO may, at its reasonable discretion and giving due regard for meeting cost minimization considerations, not grant that capacity a CPM

designation and instead grant the designation to the next-best capacity at meeting the CAISO cost minimization process defined in this Section 43.4.2.2. In exercising this discretion, the CAISO shall not unduly discriminate against resources with use limitations.

Additionally, if capacity would receive a CPM designation based on the cost minimization criteria but the resource from which the capacity would be provided is already going to be RA Capacity at some point during the CPM designation period and, in the CAISO's reasonable discretion, poses the risk of the capacity being unavailable fully to meet the reliability need creating the need for a CPM designation, then the CAISO may, at its reasonable discretion and giving due regard for meeting cost minimization considerations, not grant that capacity a CPM designation and instead grant the designation to the next-best capacity at meeting the CAISO cost minimization process defined in this Section 43.4.2.2.

#### **43.4.2.3 Additional Permissible Considerations**

In either the Annual CSP or Monthly CSP, if two or more offers would meet the cost minimization criteria identified in Section 43.4.2.2 equally, then the CAISO shall grant the designation in its discretion based on criteria A and B, below. In the Intra-monthly CSP, if two or more offers are within 10% of each other in terms of total cost to designate the capacity, then the CAISO shall grant the designation in its discretion based on criteria A and B, below.

Criterion A – Relative effectiveness of the resources in meeting local and/or zonal constraints or other ISO system needs.

Criterion B – Relative operating characteristics of the resources, including dispatchability, ramp rate, and load-following capability.

#### **43.4.2.4 Timeline and Procedures for Annual CSP**

The CAISO shall conduct an initial offer period for the Annual CSP and an offer adjustment period for the Annual CSP according to the schedules published in the Business Practice Manual.

During the Annual CSP initial offer period Scheduling Coordinators shall have the opportunity to submit offers to the Annual CSP. Scheduling Coordinators submitting offers in the Annual CSP

initial offer period that do not conform with the offer rules defined in Section 43.4.1 shall have the opportunity to resubmit offers during the Annual CSP initial offer period.

During the Annual CSP offer adjustment period, Scheduling Coordinators have the option to remove capacity that was offered in the Annual CSP initial offer period or lower the offer price of capacity that was offered in the Annual CSP initial offer period. If an offer is withdrawn during the Annual CSP offer adjustment period, the Scheduling Coordinator for Eligible Capacity must provide a reason for the withdrawal. This information will be used by the CAISO for tracking and market evaluation purposes only.

After the Annual CSP offer adjustment period closes, the CAISO shall validate that capacity offered in the Annual CSP from a given resource is not on a Resource Adequacy Plan in any applicable month of the annual RA showing. As long as a resource has sufficient capacity between the relevant NQC or EFC and the amount shown on any Resource Adequacy Plan for any day for which it potentially would hold a CPM designation, this capacity is eligible to participate in the CSP. Upon completion of the validation process offers to the CSP cannot be removed or altered until after the Annual CSP is complete.

#### **43.4.2.5 Timeline and Procedures for Monthly CSP**

The CAISO shall conduct an initial offer period for the Monthly CSP and an offer adjustment period for the Monthly CSP according to the schedules published in the Business Practice Manual.

During the Monthly CSP initial offer period Scheduling Coordinators shall have the opportunity to submit offers to the Monthly CSP. Scheduling Coordinators submitting offers in the Monthly CSP initial offer period that do not conform with the offer rules defined in Section 43.4.1 shall have the opportunity to resubmit offers during the Monthly CSP initial offer period.

During the Monthly CSP offer adjustment period, Scheduling Coordinators have the option to remove capacity that was offered in the Monthly CSP initial offer period or lower the offer price of capacity that was offered in the Monthly CSP initial offer period. If an offer is withdrawn during the Monthly CSP offer adjustment period, the Scheduling Coordinator for Eligible Capacity must

provide a reason for the withdrawal. This information will be used by the CAISO for tracking and market evaluation purposes only.

After the Monthly CSP offer adjustment period closes, the CAISO shall validate that capacity offered in the Monthly CSP from a given resource is not Committed RA Capacity for that month.

As long as a resource has sufficient capacity between the relevant NQC or EFC and the Committed RA Capacity amount for any day for which it potentially would hold a CPM designation, this capacity is eligible to participate in the CSP. The Monthly CSP validation process shall not validate whether the resource was or was not shown with overlapping capacity in an Annual Resource Adequacy Plan. Upon completion of the validation process offers to the CSP cannot be removed or altered until after the Monthly CSP is complete.

#### **43.4.2.6 Timeline and Procedures for Intra-monthly CSP**

The CAISO shall conduct an offer period for the Intra-monthly CSP according to the schedule published in the Business Practice Manual.

During the Intra-monthly CSP offer period Scheduling Coordinators shall have the opportunity to submit offers to the Intra-monthly CSP. Scheduling Coordinators submitting offers in the Intra-monthly CSP offer period that do not conform with the offer rules defined in Section 43.4.1 shall have the opportunity to resubmit offers during the Intra-monthly CSP offer period.

After the Intra-monthly CSP offer period closes Scheduling Coordinators have the option to remove capacity that was offered in the Intra-monthly CSP offer period or lower the offer price of capacity that was offered in the Intra-monthly CSP offer period.

After the Intra-monthly CSP offer period closes, on a day that an Exceptional Dispatch CPM or Significant Event CPM would be made, any offers in the system will be locked through the assessment and designation period. The CAISO shall validate that capacity offered in the Intra-monthly CSP from a given resource is not Committed RA Capacity on the day that the CPM designation would begin. Where an Intra-monthly CSP would be conducted to grant an Exceptional Dispatch CPM, the offer price for any capacity offered from a resource that currently has Exceptional Dispatch CPM Capacity will be the offer price at which the existing Exceptional

Dispatch CPM was granted. The CAISO will only grant an intra-monthly CPM to capacity that is not Committed RA Capacity on the day that the CPM designation would begin.

If an Exceptional Dispatch CPM is offered to a resource whose Scheduling Coordinator did not submit an offer to the Intra-monthly CSP, then the scheduling coordinator for that resource has 24 hours to reject the designation. If the resource rejects the designation, then the CAISO shall settle payments to the resource's Scheduling Coordinator under the supplemental revenues option per Section 39.10.

#### **~~43.4.— Limitation of Eligibility for Flexible Capacity CPM Designation~~**

~~(a) **Committed Capacity.** Capacity committed as RA Capacity, Flexible RA Capacity, RA Replacement Capacity, RA Substitute Capacity, RMR Capacity, or CPM Capacity shall not be eligible to receive a Flexible Capacity CPM designation for the duration of that commitment.~~

~~(b) **Operationally Unavailable Capacity.** Capacity on, or scheduled to be on, a Forced Outage, Approved Maintenance Outage, or de-rate, is not operationally available and shall not be eligible to receive a Flexible Capacity CPM designation for the duration of that unavailability.~~

**43.4.3 Designation Amount.** While the CAISO does not have to designate the full capability of a resource, the CAISO may designate under the CPM an amount of CPM Capacity ~~or CPM Flexible Capacity~~ from a resource that exceeds the amount of capacity identified to ensure compliance with the Reliability Criteria set forth in Section 40.3 due to the PMin or other operational requirements/limits of a resource that has available capacity to provide CPM service. The CAISO shall not designate the capacity of a resource for an amount of capacity that is less than the resource's PMin.

**43.4.3.1 Simultaneous Designations.** In the event the CAISO determines that a CPM

designation must be issued to resolve a collective deficiency of system RA Capacity under Section 43.2.3 and that a Flexible Capacity CPM designation must be issued to resolve a cumulative deficiency of Flexible RA Capacity under Section 43.2.7 for annual or monthly plans covering the same or overlapping time periods, the CAISO will apply the criteria in Section 43.4.2 and endeavor to designate capacity that will be effective in resolving both underlying reliability needs –

- (1) If the MW amount of the simultaneous or overlapping designation is sufficient to resolve both underlying reliability needs, no further designation of CPM Capacity ~~or CPM Flexible Capacity~~ will be issued.
- (2) If the MW amount of the simultaneous or overlapping designation is not sufficient to resolve both underlying reliability needs, the CAISO may designate additional CPM Capacity ~~or CPM Flexible Capacity~~ to cover the remaining deficiency.

#### **43.5 Obligations Of A Resource Designated Under The CPM**

##### 43.5.1 Availability Obligations.

~~Capacity and CPM Flexible Capacity from resources designated under the CPM~~ CPM Capacity shall be subject to all of the availability, dispatch, testing, reporting, verification and any other applicable requirements imposed under Section 40.6 or Section 40.10.6 as applicable to Resource Adequacy Resources identified in Resource Adequacy Plans and Flexible RA Capacity resources identified in Resource Flexible RA Capacity Plans. In accordance with those requirements, CPM Capacity designated under the CPM shall meet the Day-Ahead availability requirements specified in Section 40.6.1 and the Real-Time availability requirements of Section 40.6.2, and Flexible Capacity CPM ~~CPM Flexible Capacity~~ shall meet the Day-Ahead and Real-Time availability requirements specified in Section 40.10.6.1. Also in accordance with those requirements, Generating Units designated under the CPM that meet the definition of Short Start Units shall have the obligation to meet the additional availability requirements of Section 40.6.3, and Generating Units designated under the CPM that meet the definition of Long Start Units will have the rights and obligations specified in Section 40.6.7.1.



If the CAISO has not received an Economic Bid or a Self-Schedule for CPM Capacity, the CAISO shall utilize a Generated Bid in accordance with the procedures specified in Section 40.6.8. In addition to Energy Bids, resources designated under the CPM shall submit Ancillary Service Bids for their CPM Capacity ~~and CPM Flexible Capacity~~ to the extent that the resource is certified to provide the Ancillary Service.

#### **43.5.2 Obligation To Provide Capacity And Termination**

The decision to accept a ~~designation as CPM Capacity CPM or Flexible Capacity CPM designation~~ shall be voluntary for the Scheduling Coordinator for any resource. If the Scheduling Coordinator for a resource accepts ~~an~~ CPM designation, it shall be obligated to perform for the full quantity and full period of the designation with respect to the amount of CPM Capacity for which it has accepted ~~an~~ CPM designation. If the Scheduling Coordinator for a resource accepts a Flexible Capacity CPM designation, the resource shall be obligated to perform for the full quantity and full period of the designation, subject to the must-offer obligation in Section 40.10.6 that applies to the Flexible Capacity Category of the resource that was designated. If a Participating Generator's or Participating Load's Eligible Capacity is designated under the CPM after the Participating Generator or Participating Load has filed notice to terminate its Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement or withdraw the Eligible Capacity from its Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement, and the Scheduling Coordinator for the resource agrees to provide service under the CPM, then the Scheduling Coordinator shall enter into a new Participating Generator Agreement, Net Scheduled PGA, Pseudo-Tie Participating Generator Agreement, or Participating Load Agreement, as applicable, with the CAISO.

#### **43.5.3 Availability Obligations for Simultaneous Designations.**

To the extent a resource accepts simultaneous or overlapping designations as CPM Capacity and ~~CPM Flexible Capacity Flexible Capacity CPM~~ under Section 43.4.3, that resource shall be subject to the must-offer obligations for both designations.

#### **43.5.4 Individualized Non-Availability Charges And Availability Incentive**

## Payments

Capacity accepting a designation as CPM Capacity will face a resource-specific Availability Incentive Mechanism Price under section 40.9.6.

The resource-specific price will be the higher of: (a) the price that the resource was paid by the CAISO (\$/kW-month) as a result of receiving the designation; and (b) the RA Availability Incentive Mechanism rate. Availability Incentive Mechanism payments to a resource designated under the CPM will be capped at the general Availability Incentive Mechanism rate.

For a resource requesting a resource-specific CPM Capacity price pursuant to Section 43.4.1.1.1, the CAISO shall use that resource-specific CPM capacity price for calculating the Availability Incentive Mechanism only if that resource-specific CPM capacity price has been approved in time for inclusion on the Recalculation Settlement Statement T+55B. Otherwise, for resources that have sought a resource-specific CPM Capacity price pursuant to Section 43.4.1.1.1, the CAISO shall use the CPM Soft Offer Cap price for calculating the Availability Incentive Mechanism price.

## **43.6 Reports**

The CAISO shall publish the following reports and notices.

### **43.6.1 CPM Designation Market Notice**

The CAISO shall issue a Market Notice within two (2) Business Days of a CPM designation under Sections 43.2.1 through 43.2.6. CPM designations as a result of Exceptional Dispatches shall be subject to the reporting requirement set forth in Section 34.9.4. The Market Notice shall include a preliminary description of what caused the CPM designation, the name of the resource(s) procured, the preliminary expected duration of the CPM designation, the initial designation period, and an indication that a designation report is being prepared in accordance with Section 43.6.2.

For Exceptional Dispatch CPM designations, the market notice shall additionally indicate whether the designation was made to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need, specify the quantity of the Exceptional Dispatch CPM capacity that was procured and the Exceptional Dispatch CPM Term,

and identify the engineering assessment the CAISO used to determine the quantity of capacity needed from the resource to address the reliability issue.

#### **43.6.2 Designation Of A Resource Under The CPM**

The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under Sections 43.2.1 through 43.2.6 or ten (10) days after the end of the month. The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or CPM Significant Event), and an explanation of why it was necessary for the CAISO to utilize the CPM authority);
- (2) The following information would be reported for all backstop designations:
  - (a) the resource name;
  - (b) the amount of CPM Capacity ~~and/or CPM Flexible Capacity~~ Flexible Capacity CPM designated (MW),
  - (c) an explanation of why that amount of CPM Capacity ~~or and/or CPM Flexible Capacity Flexible Capacity CPM-Flexible Capacity~~ CPM was designated,
  - (d) the date CPM Capacity ~~and/or CPM Flexible Capacity Flexible Capacity CPM~~ Capacity CPM was designated,
  - (e) the duration of the designation; and
  - (f) the ~~price for the CPM procurement~~ accepted offer price of the resource, or if the resource has a request pending with FERC to exceed the ~~soft offer cap~~ CPM Soft Offer Cap, then the CPM Soft Offer Cap along with a notation that the resource has a pending request with FERC to be compensated above the CPM Soft Offer Cap.

(3) If the reason for the designation is a CPM Significant Event, the CAISO will also include:

- (a) a discussion of the event or events that have occurred, why the CAISO has procured CPM Capacity, and how much has been procured;
- (b) an assessment of the expected duration of the CPM Significant Event;
- (c) the duration of the initial designation (thirty (30) days); and
- (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.

(4) If the reason for the designation is Exceptional Dispatch CPM Capacity, the CAISO will also include additional information about the CAISO's determination of the quantity and term of the designation, which supplements the information included in the market notice issued pursuant to Section 43.6.1.

### **43.6.3 Non-Market And Repeated Market Commitment Of Non-RA Capacity**

Within ten (10) calendar days after the end of each month, the CAISO shall post a report to the CAISO Website that identifies for the prior month:

- (1) Any non-market commitments of non-Resource Adequacy Capacity (irrespective of whether the capacity comes from a resource that has no Resource Adequacy obligation or has a pre-existing partial Resource Adequacy commitment); and
- (2) All market commitments of non-Resource Adequacy Capacity.

The CAISO will provide a Market Notice of the availability of this report. The report will not include commitments of RMR Generation capacity, Resource Adequacy Capacity or designated CPM Capacity. The report shall include the following information:

- (a) the name of the resource;
- (b) the IOU Service Area and Local Capacity Area (if applicable);
- (c) the maximum capacity committed in response to the event (MW);
- (d) how capacity was procured (for example, by RUC or Exceptional Dispatch);
- (e) the reason capacity was committed; and
- (f) information as to whether or not all Resource Adequacy Resources and previously-designated CPM Capacity were used first and, if not, why they were not.

**43.6.4**            ~~[Not Used]~~ **Publication of Offers Submitted to the Competitive Solicitation Process**

~~The CAISO shall publish all final offers into a CSP on a rolling quarterly basis with a five-quarter-delay. Published information shall include: (a) technology or fuel type of the resource; (b) kW-month of capacity offered; (c) for Annual and Monthly CSPs, capacity type offered (i.e., flexible, RA, or both); (d) CSP into which the capacity was offered; and (e) flexible capacity category, if applicable. Published information shall not include the identity of the party offering capacity into a CSP. If fewer than three resources of a particular technology or fuel type have offered into a CSP, then the CAISO shall consolidate reporting for multiple technology or fuel types.~~

**43.7**                **Payments To ~~Resources~~ Capacity Designated Under The CPM**

~~Scheduling Coordinators for Eligible Capacity may submit to the CAISO an intention to be paid a monthly CPM Capacity Payment under Section 43.7.1 or Section 43.7.2. Scheduling Coordinators for Eligible Capacity will be able to change their selections annually within thirty (30) days of a CAISO Market Notice seeking such payment preferences. To the extent a Scheduling Coordinator for Eligible Capacity does not submit a selection to be compensated in accordance~~

~~with Section 43.7.1, the Scheduling Coordinator shall be deemed to have selected to be paid on a resource-specific basis pursuant to Section 43.7.2, for purposes of the CAISO's CPM designation determinations.~~ ~~43.7.1~~ ~~Monthly CPM Capacity Payment~~

~~On February 16, 2012, the fixed CPM Capacity price of \$67.50/kW-year shall become effective and shall remain in effect for two (2) years. On February 16, 2014, the fixed CPM Capacity price shall increase by five (5) percent and the effective price shall be \$70.88/kW-year, which shall remain in effect for two (2) years until February 16, 2016. The fixed CPM Capacity price shall also apply to CPM Flexible Capacity payments.~~

#### **43.7.1.4 Calculation of Monthly CPM Capacity Payment**

Scheduling Coordinators representing resources receiving payment ~~under Section 43.7.1~~ for a CPM designation shall receive a monthly CPM Capacity Payment for each month of CPM designation equal to the product of the ~~amount of their higher of the~~ kW-month of -designated CPM Capacity or CPM Flexible Capacity Flexible Capacity CPM, the relevant CPM Availability Factor for Forced Outages, ~~as determined in accordance with Appendix F, Schedule 6, a monthly shaping factor as set forth in Appendix F, Schedule 6, and the effective fixed~~ CPM Capacity price per kW-~~year-month~~ (based on the capacity's CSP bid, the CPM Soft Offer Cap, or the resource-specific CPM rate authorized by FERC, as applicable) and the ~~CPM Availability Percentage for Maintenance Outages, with a deduction pro-rated for days the capacity was- Committed RA Capacity other than CPM Capacity. Therefore~~ that the formula for determining the monthly CPM Capacity Payment would be as follows:

~~(CPM Capacity MWkW) x (CPM Availability Factor for Forced Outages) x (1/12 monthly shaping factor) x (effective fixed CPM Capacity price per kW-yearmonth) x CPM Availability Percentage for Maintenance Outages~~ ~~— (CPM Committed RA Capacity not through CPM designation MkW \* CPM Capacity price per kW-month).~~

The CPM Availability Percentage for Maintenance Outages is equal to the ratio of: (1) the sum of the CPM Capacity MW for each hour of the month across all hours of the month, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Maintenance Outage or

~~non-temperature-related ambient de-rates to (2) the product of CPM Capacity MW and the total hours in the month.~~

~~The foregoing formula shall apply to all~~ Provided, however, that CPM Capacity ~~and CPM Flexible Capacity Flexible Capacity CPM receiving monthly CPM Capacity Payments under this Section 43.7.1 except for CPM Capacity~~ designated to respond to a CPM Significant Event or an Exceptional Dispatch CPM, ~~in which case the monthly CPM Capacity Payment shall receive~~ payment shall be based proportionately on the actual number of days the resource was designated as CPM Capacity during the month to the total number of days in the month.

~~For purposes of CPM designations, except for designations for CPM Significant Events and Exceptional Dispatch CPM, the CPM Availability Factor for Forced Outages shall be calculated as the ratio of: (1) the sum of the CPM Capacity MW for each hour of the month across all hours of the month, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Forced Outage or temperature-related ambient de-rate, to (2) the product of CPM Capacity MW and the total hours in the month.~~

~~For purposes of CPM designations for CPM Significant Events and Exceptional Dispatch CPM, the CPM Availability Factor for Forced Outages shall be calculated as the ratio of: (1) the sum of the CPM Capacity MW for each hour across all hours of the month or part of the month for which a unit is designated, whichever is applicable, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Forced Outage or temperature-related ambient de-rate, to (2) the product of CPM Capacity MW and the total hours in the month or part of the month for which a unit is designated, whichever is applicable.~~

#### **43.7.2 Payments For Overlapping CPM Designations to the Same Resource**

##### **43.7.1.2 Payments For Simultaneous Designations**

~~For the purpose of this Section 43.7.2, a MW of capacity holds an overlapping obligation if that MW has a flexible RA obligation and another form of RA obligation. If a resource accepts separate CPM designations resulting in overlapping obligations, then~~ -simultaneous or

~~overlapping designations as CPM Capacity and CPM Flexible Capacity,~~ the MW amount of the CPM capacity payments for the period the designations overlap shall be the higher of: (a) the highest higher MW amount of either designation; or (b) the quantity of Flexible Capacity CPM plus the quantity of capacity, if any, below the resource's PMin that is ineligible to count toward the resource's EFC per Section 40.10.4.1(a)(1). The resource shall not be provided with two CPM payments for the same capacity.

### **43.7.3 Market Payments**

In addition to the CPM Capacity Payment identified in Section 43.7, CPM resources, including Flexible Capacity CPM resources, shall be entitled to retain any revenues received as a result of their selection in the CAISO Markets, provided, however, that CPM resources required to participate in the RUC process will be optimized using a zero (\$0) dollar RUC Availability Bid and are not eligible to receive compensation through the RUC process.

### ~~43.7.2 Resource-Specific CPM Capacity Payment~~

~~If a Scheduling Coordinator for Eligible Capacity believes that the fixed CPM Capacity price per KW-year in effect under Section 43.7.1 will not compensate a resource for its going forward costs, as calculated in accordance with the formula provided in Section 43.7.2.2, the Scheduling Coordinator may annually in accordance with Section 43.7, inform the CAISO of what proposed higher CPM Capacity price or CPM Flexible Capacity price would compensate the resource for its going forward costs and which the Scheduling Coordinator is willing to have the CAISO use for purposes of the CPM designation process ("going forward cost offer price").~~

#### ~~43.7.2.1 Failure to Submit Going Forward Cost Offer Price~~

~~A Scheduling Coordinator for a resource is not required to submit a specific going forward cost offer price for such resource under the process provided for in Section 43.7; however, except for an Exceptional Dispatch CPM designation, a Scheduling Coordinator that has not previously~~



~~identified the going forward cost offer price for a resource must notify the CAISO of what that price is before any CAISO designation of that resource's capacity as CPM Capacity or CPM Flexible Capacity can become effective. In the case of an Exceptional Dispatch CPM designation on behalf of a resource that has not selected the supplemental revenues option, the CPM designation shall become effective notwithstanding the resource's failure to select compensation pursuant to Section 43.7.1 or to identify a going forward cost offer price pursuant to Section 43.7.2. In such a case, the CAISO shall use the compensation under Section 43.7.1 for both dispatch and compensation for the Exceptional Dispatch CPM Term. In the case of a Scheduling Coordinator that has not previously identified the going forward cost offer price for a resource, the cap on supplemental revenues under Section 39.10.4 will be calculated using the monthly capacity payment under Section 43.7.1.~~

#### ~~43.7.2.1.1~~ **Determination of Capacity Price**

~~If the CAISO designates a resource that has proposed a CPM Capacity or CPM Flexible Capacity price above the fixed CPM Capacity price per kW-year in effect under Section 43.7.1, and the sales from the resource are under the jurisdiction of the FERC, the Scheduling Coordinator for the resource shall make a limited resource-specific filing before the FERC to determine the just and reasonable capacity price for the going forward costs for the resource to be used in applying the CAISO's FERC jurisdictional monthly CPM Capacity Payment formula. If the sales from the resource are not under the jurisdiction of the FERC, the Scheduling Coordinator for the resource shall make a non-jurisdictional filing with the FERC to determine the just and reasonable capacity price for the going forward costs for the resource to be used in applying the CAISO's FERC-jurisdictional monthly CPM Capacity Payment formula.~~

#### ~~43.7.2.1.2~~ **Going Forward Cost**

~~In making the cost justification filing with FERC for a CPM Capacity or CPM Flexible Capacity price above the fixed CPM Capacity price per kW-year under Section 43.7.1, the Scheduling Coordinator for the resource may not propose—and shall not get paid—an amount higher than the going forward cost offer price that it had previously proposed to the CAISO as its going~~

~~forward cost offer price under Section 43.7 or this Section 43.7.2, either prior to or at the time of CPM designation.~~

~~Going forward costs for any resource-specific filing under this Section shall be calculated based on the following formula:~~

~~(fixed operation & maintenance costs, plus ad valorem taxes, plus administrative & general costs, plus ten (10) percent of the foregoing amounts)~~

~~provided such costs shall be converted to a fixed \$/kW-year amount.~~

#### ~~43.7.2.2 Resource-Specific Monthly CPM Capacity Payment~~

~~Scheduling Coordinators representing resources receiving payment under Section 43.7.2 shall receive a monthly CPM Capacity Payment for each month of CPM designation equal to the product of the amount of their CPM Capacity or CPM Flexible Capacity, the relevant CPM Availability Factor for Forced Outages as determined in accordance with Appendix F, Schedule 6, a monthly shaping factor as set forth in Appendix F, Schedule 6, the resource-specific CPM Capacity price, as determined by FERC and the CPM Availability Percentage for Maintenance Outages, in accordance with the following formula:~~

~~(CPM Capacity MW) x (CPM Availability Factor for Forced Outages) x (1/12 monthly shaping factor) x (the resource-specific CPM Capacity price as determined by FERC) x CPM Availability Percentage for Maintenance Outages.~~

~~The CPM Availability Percentage for Maintenance Outages is equal to the ratio of: (1) the sum of the CPM Capacity MW for each hour of the month across all hours of the month, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Maintenance Outage or non-temperature-related ambient de-rate to (2) the product of CPM Capacity MW and the total hours in the month.~~

~~The foregoing formula shall apply to all CPM Capacity or CPM Flexible Capacity receiving monthly CPM Capacity Payments under Section 43.7.2 except for CPM Capacity designated to respond to a CPM Significant Event or Exceptional Dispatch CPM, in which case the monthly CPM Capacity Payment shall be based proportionately on the actual number of days the~~

~~resource was designated as CPM Capacity during the month and available to the CAISO to the total number of days in the month.~~

~~Prior to the determination by FERC of the resource-specific going forward costs for CPM Capacity or CPM Flexible Capacity designated and paid pursuant to Section 43.7.2, the CAISO shall proceed as follows. For the period between the CAISO's designation and the FERC's determination, the CAISO shall utilize the fixed CPM Capacity price per kW-year in effect under Section 43.7.1 for purposes of the resource-specific monthly CPM Capacity Payment for financial Settlement. This amount shall be subject to surcharge based on the outcome of the FERC proceeding so that the resource will receive any higher actual resource-specific payment as determined by FERC for the full period of the CPM designation. Once approved by FERC, the CAISO shall apply the higher of the fixed CPM Capacity price per kW-year in effect under Section 43.7.1 or the resource-specific CPM Capacity price as determined by the FERC.~~

~~For purposes of CPM and Flexible Capacity CPM designations, except for designations for CPM Significant Events, the CPM Availability Factor for Forced Outages shall be calculated as the ratio of: (1) the sum of the CPM Capacity MW for each hour of the month across all hours of the month, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Forced Outage or temperature-related ambient de-rates, to (2) the product of CPM Capacity MW and the total hours in the month.~~

~~For purposes of CPM designations for CPM Significant Events, the CPM Availability Factor for Forced Outages shall be calculated as the ratio of: (1) the sum of the CPM Capacity MW for each hour across all hours of the month or part of the month for which a unit is designated, whichever is applicable, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available and is not on an authorized Outage, to (2) the product of CPM Capacity MW and the total hours in the month or part of the month for which a unit is designated, whichever is applicable.~~

~~For purposes of this Section 43.7.2, an authorized Outage shall be limited to a CAISO-Approved Maintenance Outage.~~

### **43.8 Allocation Of CPM Capacity Payment Costs**

For each month, the CAISO shall allocate the costs of CPM Capacity Payments made pursuant to Section 43.~~6~~7 as follows:

#### **43.8.1 LSE Shortage Of Local Capacity Area Resources In Annual Plan**

If the CAISO makes CPM designations under Section 43.2.1.1 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its annual Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area. The Local Capacity Area Resource Deficiency under this Section shall be computed on a monthly basis and the CPM Capacity Payments allocated based on deficiencies during the month(s) covered by the CPM designation(s).

#### **43.8.2 LSE Shortage Of Local Capacity Area Resources In Month Plan**

If the CAISO makes CPM designations under Section 43.2.1.2 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its monthly Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area.

### **43.8.3 Collective Deficiency In Local Capacity Area Resources**

If the CAISO makes designations under Section 43.42.2 the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs serving Load in the TAC Area(s) in which the deficient Local Capacity Area was located. The allocation will be based on the Scheduling Coordinators' proportionate share of Load in such TAC Area(s) as determined in accordance with Section 40.3.2, excluding Scheduling Coordinators for LSEs that procured additional capacity in accordance with Section 43.2.1.2 on a proportionate basis, to the extent of their additional procurement.

### **43.8.4 LSE Shortage Of Demand Or Reserve Margin Requirement In Plan**

If the CAISO makes CPM designations under Section 43.42.3, then the CAISO will allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each LSE based on the proportion of its deficiency to the aggregate deficiency.

### **43.8.5 Allocation Of CPM Significant Event Costs**

If the CAISO makes any CPM Significant Event designations under Section 43.2.4, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the CPM Significant Event caused or threatened to cause a failure to meet Reliability Criteria based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

### **43.8.6 Allocation Of Exceptional Dispatch CPMs**

If the CAISO makes any Exceptional Dispatch CPM designations under Section 43.2.5, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the Exceptional Dispatch CPM arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

#### **43.8.7 Allocation of CPM Costs For Resources At Risk of Retirement**

If the CAISO makes any CPM designations under Section 43.2.6 for resources at risk of retirement needed for reliability, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the CPM designation arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

#### **43.8.8 Allocation of ~~CPM-Flexible Capacity-Flexible Capacity~~ CPM Costs**

(a) Calculation of Deficiency by LRA.

(1) The CAISO will determine whether each Local Regulatory Authority met its allocable share of the Flexible Capacity Need based on the cumulative amount of Flexible RA Capacity that Local Regulatory Authority's jurisdictional Load Serving Entities included in their annual and monthly Flexible RA Capacity Plans in total, and included in their monthly Flexible RA Capacity Plans for each Flexible Capacity Category.

(2) The CAISO will calculate the total amount of Flexible RA Capacity included in the annual and monthly Flexible RA Capacity Plans collectively for all Load Serving Entities within the Local Regulatory Authority, and the total amount included in the monthly Flexible RA Capacity Plans for each Flexible Capacity Category using the minimum or maximum quantity, as applicable, for each category, and using the Effective Flexible Capacity value calculated under Section 40.10.4 for each resource designated in a plan as a Flexible RA Capacity Resource.

(b) **Allocation By CAISO Method.**

(1) If the amount of Flexible RA Capacity the jurisdictional Load Serving Entities included in their annual Flexible RA Capacity Plans or monthly Flexible RA Capacity Plans, in total and in each Flexible Capacity Category, meets or exceeds the applicable Flexible Capacity Need allocated to their Local Regulatory Authority, the CAISO will not allocate any of the ~~CPM-Flexible Capacity-Flexible Capacity~~ CPM costs to the Scheduling Coordinators for those Load Serving Entities.

(2) If the amount of Flexible RA Capacity the jurisdictional Load Serving Entities included in their annual Flexible RA Capacity Plans or monthly Flexible RA Capacity Plans, either in total or for a Flexible Capacity Category, is less than the applicable Flexible Capacity Need allocated to their Local Regulatory Authority, and that Local Authority has not established its own methodology for allocating the Flexible Capacity Need to its jurisdictional Load Serving Entities, the CAISO will allocate the ~~CPM Flexible Capacity~~ Flexible Capacity CPM costs proportionately to the Scheduling Coordinator of each jurisdictional Load Serving Entity that failed to meet its procurement obligation.

(c) **Allocation by Local Regulatory Authority Method.** If Load Serving Entities jurisdictional to a Local Regulatory Authority have a cumulative deficiency under Section 43.8.8(a) and the Local Regulatory Authority has established its own methodology for allocating the Flexible Capacity Need to its jurisdictional Load Serving Entities, the CAISO will use the Local Regulatory Authority's methodology to allocate the ~~CPM Flexible Capacity~~ Flexible Capacity CPM costs to the Scheduling Coordinator of each Load Serving Entity that is jurisdictional to that Local Regulatory Authority and that failed to meet its procurement obligation.

(d) **Reduction of Cost Allocation.** If the CAISO issues a Flexible Capacity CPM designation, a Scheduling Coordinator for a Load Serving Entity that was deficient, but provided additional Flexible RA Capacity in a revised annual or monthly Flexible RA Capacity Plan consistent with the Market Notice under Section 43.2.7.1 --

(1) will be not be allocated a share of the Flexible Capacity CPM procurement costs if the additional Flexible RA Capacity included in that LSE's revised LSE Flexible RA Capacity Plan resolved the total deficiency of that Load Serving Entity; or

(2) will be allocated a share of the Flexible Capacity CPM procurement costs on a proportionate basis to the extent that Load Serving Entity has a remaining partial deficiency.

#### **43.9 Crediting Of CPM Capacity**

The CAISO shall credit CPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entities as follows:

- (a) To the extent the cost of CPM designation under Section 43.2.1.1 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43.8.1, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards (1) the LSE's Local Capacity Area Resource obligation under Section 40.3.2 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43.2.1.1 and (2) the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43.2.1.1.
- (b) To the extent the cost of CAISO designation under Section 43.2.2 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43.8.3, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43.2.2.
- (c) To the extent the cost of CPM designation under Section 43.2.3 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43.8.4, and the designation is for greater than one month under Section 43.3.4, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43.2.3.
- (d) To the extent the cost of CPM designation under Section 43.2.6 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43.8.7, and the designation is for greater than one month under Section



43.3.7, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43.2.6.

- (e) The credit provided in this Section shall be used for determining the need for the additional designation of CPM Capacity under Section 43.2 and for allocation of CPM costs under Section 43.8.
- (f) For each Scheduling Coordinator that is provided credit pursuant to this Section, the CAISO shall provide information, including the quantity of capacity procured in MW, necessary to allow the CPUC, other Local Regulatory Authority, or federal agency with jurisdiction over the LSE on whose behalf the credit was provided to determine whether the LSE should receive credit toward its resource adequacy requirements adopted by such agencies or authorities.
- (g) To the extent the cost of Flexible Capacity CPM designation under Section 43.2.7 is allocated to a Scheduling Coordinator for an LSE under Section 43.8.8, and the designation is for greater than one month under Section 43.3.8, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Flexible Capacity requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the ~~CPM Flexible Capacity~~ Flexible Capacity CPM designated under Section 43.2.7.