



California ISO

Review of Reliability Must-Run and Capacity Procurement Mechanism Initiative

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Market Surveillance Committee Meeting
General Session
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Scope of Review of RMR and CPM initiative

RMR and CPM items

- Provide notification to stakeholders when a resource informs ISO it is retiring or mothballing
- Clarify when RMR procurement is used versus CPM procurement*
- Explore whether Risk of Retirement CPM and RMR procurement can be merged into one mechanism
- Evaluate compensation paid for RMR and CPM services*

RMR items

- Develop interim pro forma RMR agreement, i.e., change termination and re-designation provisions
- Update certain terms of pro forma RMR agreement
- Make RMR resources subject to a must offer obligation (“MOO”)*
- Make RMR resources subject to Resource Adequacy Availability Incentive Mechanism (“RAAIM”)
- Consider whether Condition 1 and 2 options are needed for RMR
- Update allowed rate of return for RMR compensation*
- Ensure RMR designation authority includes system and flexible needs
- Allocate flexible RA credits from RMR designations
- Streamline and automate RMR settlement process
- Lower banking costs associated with RMR invoicing

CPM items

- Evaluate CPM year-ahead local collective deficiency procurement cost allocation for load migration
- Evaluate if load serving entities are using CPM for their primary capacity procurement

* Items MSC will discuss today

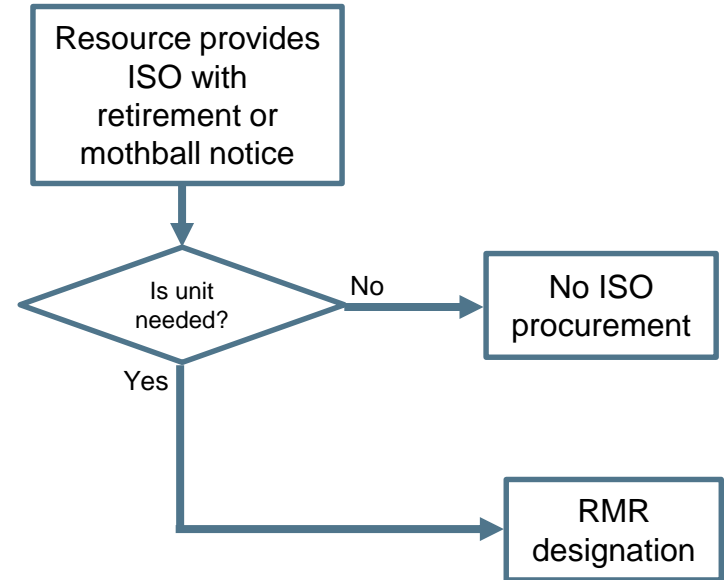
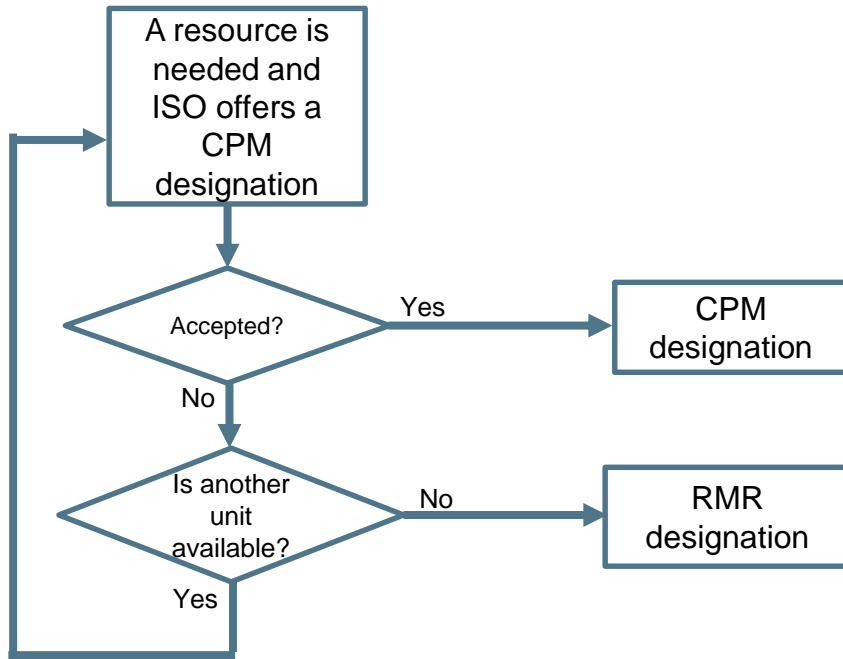
Schedule

	Date	Milestone
Milestones prior to May 30	Nov 2, 2017	ISO commits to review RMR and CPM
	Nov - Apr	See June 26, 2018 straw proposal for milestones
Straw proposal	May 30	Hold working group meeting
	Jun 26	Post straw proposal
	Jul 11	Hold stakeholder meeting
	Aug 3	Discuss initiative at MSC meeting
	Aug 7	Stakeholder written comments due
Revised straw proposal	Aug 27	Hold working group meeting
	Sep 19	Post revised straw proposal
	Sep 27	Hold stakeholder meeting
	Oct 23	Stakeholder written comments due
Second revised straw proposal	Nov 1	Hold working group meeting
	Nov 19	Post second revised straw proposal
	Nov 26	Hold stakeholder meeting
	Dec 21	Stakeholder written comments due
Draft final proposal	Jan 23, 2019	Post draft final proposal
	Jan 30	Hold stakeholder meeting
	Feb 22	Stakeholder written comments due
Final proposal	Mar 27-28	Present proposal to Board of Governors

Seeking MSC's Input on the Following Items

1. Clarify when RMR procurement is used versus CPM procurement
2. Pricing formula to use for a resource that files at FERC for a CPM price above the \$75.68 kW-year soft-offer cap price
3. Increase alignment of must offer obligation and bidding rules for capacity resources
4. Update allowed rate of return for RMR compensation

1. Clarify when RMR procurement is used versus CPM procurement



Clarify RMR versus CPM procurement (continued)

	RMR	CPM
Used to	Address resource retirements and special needs, and as last resort procurement	Backstop RA program
Can refuse designation?	No (Mandatory)	Yes (Voluntary)
Basis of compensation	Cost of service (updating rate of return)*	Bids submitted into auction, or GFFCs if bid is not submitted into auction (changing pricing formula for price above soft-offer cap)*
Procurement length	Longer term	Shorter term
Level of competition/market power	No competition/high market power	Some competition/lower market power
Has must-offer obligation?	Yes (like RA MOO)*	Yes (like RA MOO)
Will ISO insert bids if resource does not bid?	Yes, will insert cost based bids (like is done for RA resources)*	Yes, will insert cost based bids (like is done for RA resources)
Subject to RAAIM?	Yes (under consideration)*	Yes

* Changes being made in this initiative

2. Pricing formula for a resource that files at FERC for CPM price above \$75.68 kW-year soft-offer cap price

- Currently: Can file for cost of service compensation and keep all market revenues earned
 - Stakeholders are concerned this existing CPM provision provides excessive compensation because market revenues earned above cost of service are not clawed back
- Proposal: Can only file for GFFC compensation using cost categories and 20% adder used for CPM soft-offer cap reference unit, and keep all market revenues earned
 - Will make all CPM pricing based on competitive solicitation process bids or GFFCs, i.e., will no longer be mixing GFFC and cost of service methodologies

3. Increase alignment of must offer obligation and bidding rules for capacity resources

- Major maintenance adders (“MMAs”) and opportunity costs, if applicable, will be reflected in bids to ensure true cost of operation is considered in market decisions
 - Will not allow any double recovery of costs for RMR resources
- Will be eligible for bid cost recovery payments when market earnings are insufficient to cover costs
 - Market revenues earned in excess of variable costs to operate RMR resource will be clawed back
 - Will prevent double payment for major maintenance and opportunity costs

4. Update allowed rate of return for RMR compensation

- Current pre-tax rate of return is “hard-wired” into pro forma agreement at 12.25%
- Value has not changed in many years, despite changing economic conditions, and should be updated
- FERC has outlined a methodology for calculating these values and calculating zones of reasonableness
- Post-tax rates of return used in recent RMR agreements struck outside of ISO have been at lower than 12.25%

Update allowed rate of return (continued)

Potential Options for Updated Allowed Rate of Return	
1	Leave current 12.25% rate of return in place, i.e., “no action” option
2	Determine a base rate that is allowed to float – up or down - relative to a benchmark rate
3	Have an independent expert construct a rate of return to use, which is inserted and periodically updated
4	Require market participants to propose and justify a rate of return in RMR filings
5	Use a blended rate from recent transmission projects, plus an agreed upon risk adder (or could use responsible utility’s rate of return)
6	Determine a methodology for an “in-house” calculation to determine a rate of return to use, which is periodically updated