



California Independent System Operator Corporation

September 4, 2018

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket No. ER18-641-_____
Quarterly Informational Report
Status of Reliability Must-Run and Capacity Procurement Mechanism
Stakeholder Process**

Dear Secretary Bose:

The California Independent System Operator Corporation (CAISO) hereby submits its quarterly report on the status of Reliability Must-Run and Capacity Procurement Mechanism Stakeholder Process as directed by the Commission's April 12, 2018 in the above-referenced docket.

Please contact the undersigned with any questions.

Respectfully submitted

By: /s/ Sidney Mannheim

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California ISO

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

September 4, 2018

The California Independent System Operator Corporation (“CAISO”) is modifying its approach for the stakeholder process to review Reliability Must-Run (“RMR”) and Capacity Payment Mechanism (“CPM”) issues based on the Commission’s April 12, 2018, order in docket no. ER18-641. Through the April 12 order the Commission rejected the CAISO’s January 12, 2018, filing to enhance the risk of retirement (“ROR”) CPM designation process. One of the key features of the CAISO proposal was to create a new spring window, in addition to the existing fall window, for generators to request a ROR CPM designation. In its order FERC found that a spring window could result in front-running the RA process, price distortions and interference with bilateral RA procurement. While noting that the CAISO had initiated a stakeholder process to review RMR and CPM issues, FERC strongly encouraged the CAISO and stakeholders to adopt a holistic, rather than piecemeal, approach and also encouraged the CAISO to propose a package of more comprehensive reforms.

The CAISO recognizes the challenges of the changing industry and the need to consider changes to the RA program and the CAISO’s RMR and CPM backstop procurement mechanisms. The CAISO is active in RA proceedings at the CPUC and CPUC staff is active in the CAISO’s RMR and CPM Enhancements stakeholder initiative. The CAISO will soon be starting the RA Enhancements initiative that will consider changes to the CAISO tariff.

Improvements to the RA Program

The CAISO believes that the RA program needs certain refinements to remain current as the grid transforms. An improved RA program could, among other things, reduce the potential use of CAISO backstop procurement. The CAISO is an active participant in the CPUC’s RA proceedings and is advocating changes to its RA program. The CAISO is proposing the CPUC adopt in Track 2 of its current RA proceeding, which is expected to conclude in December 2018, the following items for RA compliance year 2020.

- Establish multi-year procurement for all RA capacity types, including local, system, and flexible capacity.
- Establish a central buyer and specify its roles, responsibilities, and authority.
- Require local capacity procurement at the more granular sub-area levels to prevent ineffective procurement.
- Update its transitional Effective Load Carrying Capability values for wind and solar resources

The CAISO is proposing the CPUC adopt in Track 3 of its RA proceeding, which is expected to conclude in June 2019, the following items for RA compliance year 2021.

- Revise the RA timeline to better accommodate RA processes and decision making, including providing a longer “runway” than exists today to facilitate timely resource retirement and backstop procurement decisions.
- Adopt an updated Effective Load Carrying Capability methodology for solar and wind resources that includes accounting for behind-the-meter solar.

- Consider availability limitations such as maximum run time and call events in meeting local capacity needs.
- Adopt a higher demand forecast for system RA requirements in months that exhibit greater peak demand variability.

The CAISO will soon be starting a RA Enhancements initiative that will consider the following changes to the CAISO tariff beginning with the RA compliance years 2020 and 2021.

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

Improvements to CAISO Backstop Procurement Mechanisms

In the RMR and CPM Enhancements stakeholder initiative, the CAISO has consolidated all of the substantive issues under consideration for the scope of this initiative and is reviewing them holistically. Some of the key items under discussion are listed below.

- Enhance CAISO backstop procurement processes.
- Consider modifications to compensation paid for RMR and CPM.
- Make RMR units subject to a must offer obligation.
- Provide flexible and system RA credits from RMR units.
- Lower banking costs for RMR invoicing.
- Streamline and automate RMR settlement process.

The CAISO held working group meetings on May 30, 2018 and August 27, 2018 to gather input from stakeholders. The working group meetings were well attended, including attendance by staff from the CPUC and CAISO. Stakeholders discussed the various items that are within the scope of the initiative. The agendas and presentations for the working group meeting can be found at:

http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityMust-Run_CapacityProcurementMechanismEnhancements.aspx

The CAISO will be issuing a revised straw proposal on September 19, 2018 and has targeted taking a proposal to the CAISO Board of Governors in March 2019. The schedule for the RMR and CPM Enhancements stakeholder initiative is provided in Attachment 1.

The CAISO also has filed on August 31, 2018 a limited interim change to the pro forma RMR agreement that would apply to new RMR designations allow the CAISO to terminate the agreement and immediately re-designate RMR resources under the new

substantive RMR agreement once it is accepted by the Commission. The right to immediately re-designate would not apply to RMR resources under RMR agreements currently in effect. Under the current RMR agreement, the CAISO cannot terminate and immediately re-designate a resource for RMR service, but must wait for a one year period before it can re-designate the resource. It would be imprudent for the CAISO not to extend the RMR contract under these circumstances. The proposed interim RMR contract would apply to RMR designations following Commission acceptance of a new pro forma RMR contract.

Attachment 1**Current Schedule for RMR and CPM Enhancements Stakeholder Initiative**

	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

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California, this 4th day of September, 2018.

/s/ Anna Pascuzzo

Anna Pascuzzo