



California ISO

# **Central Procurement Entity Implementation and RAAIM Settlement Modification**

**Final Proposal**

**February 8, 2022**

**Market & Infrastructure Policy**

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# 1 Executive Summary

The CAISO launched this initiative to develop tariff, business processes, and software to enable a central procurement entity (CPE) to procure local RA resources. The CAISO will also modify the current RAIM settlement process in this initiative.

For CPE Enhancements, CAISO proposes to:

- Recognize a central procurement entity as an entity that has an obligation to procure local capacity area resources and, through a scheduling coordinator, demonstrate that procurement to the CAISO through the RA showings process.
- Modify the tariff to allow LRAs to designate all or a portion of their local RA obligation to a CPE or LSE. The CAISO will exempt any CPE or LSE that has no load share in a TAC area from provisions that would cap their local obligation at their system obligation in each TAC area in their month ahead showings.
- Modify the tariff to cap the local obligation and the system obligation in each TAC area for entities that have load in multiple TAC areas.
- Develop functionality to accept and validate system and flexible CPE RA CAM credits.
- Clarify the CPM Process and cost allocation. The CAISO proposes to modify the tariff to apply the existing CPM process and cost allocation methodology to a CPE when the CPE has an individual local RA deficiency. Updates to the CAISO's settlement systems to be able to allocate costs to a CPE in addition to individual LSEs in each TAC area.

For the RAIM Enhancements, CAISO proposes to:

- Eliminate the rule that unavailability charges assessed in excess of the monthly cap will roll-over to fund allocations in future months. Rather than rolling excess funds into the next month and reallocate annually, the CAISO proposes to allocate the excess based that trading month's activity according to the current allocation formula that applies to the year-end allocation. The CAISO will allocate any excess RAIM charges for Generic RA or Flexible RA to metered demand. The CAISO has updated this proposal to include an illustrative example.

The CAISO has provided the updates to its proposal in red below, and provided summaries and responses to stakeholder comments on the draft final proposal after each section of the paper.

## 2 Introduction

As part of its resource adequacy (RA) program, the CAISO conducts an annual local capacity technical study to determine the local capacity needs across identified local capacity areas and sub-areas to address transmission constraints as well as establishing and minimum capacity and energy needs in those areas and sub-areas in order to satisfy CAISO mandatory standards.<sup>1</sup> The CAISO assigns proportionate responsibility for local capacity needs within each Transmission Access Charge (TAC) Area to all Scheduling Coordinators (SCs) for Load Serving Entities (LSEs) that serve load in that respective TAC Area. Specifically, the CAISO allocates the local capacity need to each LSE based on the LSE's proportionate share of the relevant TAC Area load at the time of the CAISO's annual coincident peak demand. For non-California Public Utilities Commission (CPUC)-jurisdictional LSEs that are under a different Local Regulatory Authority (LRA), the CAISO assigns local obligations directly to the SC for the LSE. For CPUC-jurisdictional LSEs, the CAISO provides the total local capacity requirements by TAC Area to the CPUC. The CPUC can then reallocate the local obligations to their jurisdictional entities in a manner that CPUC chooses. The CAISO will respect the CPUC reallocation as long as it is at or above the CAISO total local allocation by TAC Area provided to CPUC. Per CAISO Tariff Section 40.3.2, if the CPUC reallocation is below the total local allocation by TAC Area provided to the CPUC, the CAISO will divide the difference to all CPUC-jurisdictional LSEs based on their load share ratio within the applicable TAC Area(s).

As part of the CAISO's annual and monthly RA showings process, the CAISO verifies that the portfolio of procured local resources meets the capacity and energy needs identified in the annual local capacity technical study and can backstop for any identified deficiencies following a cure period.

In June 2020, the CPUC ordered the creation of a Central Procurement Entity (CPE) to lead procurement of Local Resource Adequacy Resources for CPUC-jurisdictional LSEs in the SCE and PG&E TAC Areas.<sup>2</sup> Under this order, CPUC would now assign the local RA obligation to the CPE to procure local resources on behalf of all CPUC-jurisdictional LSEs within the CPE's respective TAC Area. The bundled system and flexible RA attributes of CPE procured local resources

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<sup>1</sup> For more information on this process see:

<https://stakeholdercenter.caiso.com/RecurringStakeholderProcesses/Local-capacity-requirements-process-2023>

<sup>2</sup> See CPUC D. 20-06-002

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M340/K671/340671902.PDF>

would be allocated to all CPUC-jurisdictional LSEs to help reduce each LSE's system and flexible RA requirements. The CPUC adopted what it referred to as a hybrid procurement model, in which LSEs could choose to show their own local resources to the CPE and keep the entire system and flexible RA requirements for themselves. However, under the existing framework the CPE would still be subject to CPM cost allocation if that LSE failed to show that capacity to the CAISO.

The CAISO tariff currently allows LSEs to aggregate responsibilities to procure Local Capacity Area Resources.<sup>3</sup> However, given the unique nature of the CPE as outlined in CPUC D. 20-06-002, relying solely on this existing tariff provision is not sufficient to facilitate implementation of the CPE construct. The CAISO has identified additional needed tariff, software, and business process enhancements. Although the CPUC's CPE order is the impetus for this stakeholder initiative, the CAISO does not propose to limit the CPE framework to CPUC-jurisdictional LSEs. The CAISO proposes to allow LRAs to designate a CPE to procure local resources for their LSEs or LRAs can jointly designate a CPE to procure local resources for their respective LSEs. The goal of this initiative is to develop the necessary tariff language and software enhancements, and obtain Board and FERC approval to enable a generic CPE construct for RA Year 2023.

### **3 Stakeholder Process**

The CAISO is at the Final Proposal stage in the Central Procurement Entity Implementation and RAAIM Settlement Modification stakeholder process. Table 1 below shows the schedule for each stage of the initiative.

The purpose of the final proposal is to present the background, scope, and solutions of issues to facilitate implementation of a central procurement entity construct and RAAIM settlement modification in the CAISO's tariff and business processes. After publication of the final proposal and a stakeholder call, the CAISO will seek Board approval.

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<sup>3</sup> CAISO tariff section 40.3.3., titled "Procurement of Local Capacity Area Resources by LSEs", states: "Scheduling Coordinators for Load Serving Entities may aggregate responsibilities for procurement of Local Capacity Area Resources."

**Table 1: Stakeholder Timeline**

<b>Date</b>	<b>Milestone</b>
<b>February 8, 2022</b>	<b>Publish Final Proposal and Revised Draft Tariff</b>
<b>February 15, 2022</b>	Stakeholder meeting and comments on Draft Tariff due
<b>February 24, 2022</b>	Stakeholder call on Revised Draft Tariff
<b>March 1, 2022</b>	Stakeholder comments on Final Proposal due
<b>March 16-17, 2022</b>	<b>Present proposal to CAISO Board</b>
<b>October 2022</b>	<b>Implementation for RA Year 2023</b>

## 4 Central Procurement Entity Background

In June 2020, the CPUC completed a two year stakeholder process to develop a central buyer system with the goal that this new entity would provide “cost efficiency, market certainty, reliability, administrative efficiency, and customer protection.”<sup>4</sup> In D.20-06-002, the CPUC ordered, “Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) to serve as the central procurement entity for their respective distribution service areas for the multi-year local Resource Adequacy (RA) program beginning for the 2023 RA compliance year.”<sup>5</sup> Under this framework, LSEs within the “PG&E’s and SCE’s distribution service areas will no longer receive a local allocation beginning for the 2023 Resource Adequacy compliance year”.<sup>6</sup>

The CPUC also adopted a hybrid central procurement structure that if a CPUC-jurisdictional LSE procured resources that “also meets a local Resource Adequacy (RA) need, the LSE may choose to: (1) show the resource to reduce the central procurement entity’s (CPE) overall local procurement obligation and retain the resource to meet its own system and flexible RA needs, (2) bid the resource into the CPE’s solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA

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<sup>4</sup> See CPUC D. 20-06-002 page 3.

<sup>5</sup> See CPUC D. 20-06-002 page 91

<sup>6</sup> See CPUC D. 20-06-002 page 91

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needs”.<sup>7</sup> The order also laid out requirements for the CPE’s competitive, all-source solicitation to procure local resources including that the “RA attributes shall remain bundled and LSEs shall receive credits for any system or flexible capacity procured during the local RA or backstop processes, based on coincident peak load shares, as is currently done with Cost Allocation Mechanism (CAM) resources”.<sup>8</sup>

Additionally, the CPUC order allows that “the central procurement entity (CPE) shall have discretion to defer procurement of a local resource to the California Independent System Operator’s backstop mechanisms, rather than through the solicitation process, if bid costs are deemed unreasonably high. If the CPE defers to the backstop procurement, the CPE shall provide, through the independent evaluator report and annual compliance report, the reason for the deferral to backstop procurement, prices offered in the solicitation, which generators did not participate in the solicitation (if any), and other relevant information”.<sup>9</sup>

In D.20-12-006, the CPUC adopted the proposed competitive neutrality protocols for SCE and PG&E, and a proposal for a local capacity requirements (LCR) reduction compensation mechanism to apply to new preferred resources, and new energy storage resources.<sup>10</sup>

The CAISO has launched this initiative to identify and develop the CAISO’s tariff, business processes, and software necessary to accommodate a central procurement entity for local procurement. While the CAISO intends to develop tariff language broad enough to allow any LRA to develop their own central procurement entity, the impetus for this initiative is implementation of the CPUC’s D.20-06-002. The CAISO has met with CPUC and CPE staff to develop a shared understanding of the order, and the CAISO intends to develop tariff language and implementation details based on that understanding.

In R.21-10-002, the CPUC initial scoping memo also indicated that the Commission could “consider potential modifications to the CPE structure and process, including implementation details of the ‘shown’ resource component of the hybrid framework and changes to the CPE timeline”.<sup>11</sup> As a result, the final

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<sup>7</sup> See CPUC D. 20-06-002 page 91

<sup>8</sup> See CPUC D. 20-06-002 page 94

<sup>9</sup> See CPUC D. 20-06-002 page 100

<sup>10</sup> See CPUC D.20-12-006 for more details.

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M353/K540/353540952.PDF>

<sup>11</sup> See CPUC R. 21-10-002 page 5

<https://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=414681705>

framework of the hybrid procurement structure of the central procurement entity is still somewhat under development. The CAISO has identified areas of flexibility that will be built into the tariff and software that should accommodate some changes that may result from an order issued in the R.21-10-002 proceeding. The CAISO is and will continue to be an active participant in this proceeding to ensure that programs stay aligned to the best extent possible.

Given the short implementation timeframe, the CAISO must conduct its stakeholder process in parallel with the CPUC proceeding. The CPUC is expected to publish a proposed decision in February 2022 and a final decision on March 2022. The CAISO also plans to take its final policy to the Board of Governors on March 16-17 2022 to allow the CAISO time to get any tariff changes approved by the Federal Energy Regulatory Commission (FERC) and software changes implemented by October 2022 for RA Year 2023.<sup>12</sup>

## 5 Proposal

On an annual basis the CAISO conducts a local capacity technical study to “determine the minimum amount of Local Capacity Area Resources in MW that must be available to the CAISO within each identified Local Capacity Area, and identify the Generating Units within each identified Local Capacity Area”.<sup>13</sup> The CAISO takes the results of this study and divides the requirements amongst CPUC and Non-CPUC-jurisdictional LSEs in accordance with Tariff Section 40.3.2. Specifically, the CAISO takes the total need in each TAC area that corresponds to all CPUC-jurisdictional LSEs and sends it to the CPUC, the CPUC then reallocates the requirements to each CPUC-jurisdictional entity based on the method of their choice. If the CPUC does not allocate the entire obligation, the CAISO will allocate any remaining capacity requirements to LSEs using the default provisions in the tariff. For LSEs under the jurisdiction of other LRAs, the CAISO allocates directly the local obligations pro-rata based on load in the TAC area.<sup>14</sup>

Procured local resources that satisfy the generation capacity requirements for Local Capacity Areas are put on annual and monthly Resource Adequacy Plan(s). The CAISO then validates that the resulting portfolio of all shown RA resources covers the needs identified in the local capacity technical study. If any

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<sup>12</sup> Depending on the size and scope of software changes needed to implement the final policy, an October 2022 implementation deadline is not guaranteed

<sup>13</sup> See Tariff Section 40.3.1

<sup>14</sup> See Tariff Section 40.2.3(a-b)



deficiencies are identified, LSEs are provided a cure period. If deficiencies remain, the CAISO can issue a CPM to procure additional capacity that may be needed to ensure reliability in the local areas and sub-areas. Costs of this local CPM capacity are first allocated pro rata to the responsible entity based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency.<sup>15</sup>

Below the CAISO outlines how it proposes to incorporate a central procurement entity into this process.

## 5.1 Recognizing a Central Procurement Entity

The CAISO proposes to define a central procurement entity as a market participant that is represented by a scheduling coordinator. **In this final draft, the CAISO is no longer proposing a new sub-section 4 in the tariff to outline the responsibilities of the CPE, and will no longer be requiring a pro forma agreement for the creation of a CPE.**

Section 40.3.2 covers how the CAISO allocates local RA obligations to LSEs. For CPUC-jurisdictional LSEs, the CAISO will calculate the total Local Capacity Area Resource obligations, and transmit these obligations to the CPUC. The CAISO tariff allows the CPUC to reallocate these obligations across its jurisdiction LSEs using its own methodology. However, if the allocation method utilized by the CPUC does not fully allocate the total sum, the CAISO will allocate the difference to all SCs of CPUC-jurisdictional LSEs their proportional share using the methodology outlined in Section 40.3.2(a). Today this tariff section is written so that only LSEs can hold a local RA obligation. The CAISO proposes to modify this section to contemplate that the CPUC may assign a local obligation to a CPE as well as to a LSE.

In the case of non-CPUC-jurisdictional LSEs, this section would maintain the default allocation methodology described in Section 40.3.2(a), but also provide an annual window in which LRAs may choose to shift all or part of their LSEs' local RA obligations to a CPE. The CAISO has contemplated that to achieve greater efficiency and further reduce administrative burdens—especially for smaller LRAs—multiple LRAs may wish to assign their LSEs' local obligations to the same CPE. For example assume an LRA has an LSE under its jurisdiction in a particular TAC area and a second LRA has an LSE in that same TAC area. Those two LRAs may find that it is more beneficial for the two LSEs under their

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<sup>15</sup> See Tariff Section 43A.8.1

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jurisdiction to have their local RA obligations met by a single CPE. The CAISO proposes to permit such allocations from multiple LRAs to a single CPE.

When assigned a local obligation by an LRA, the CPE will be responsible for submission of annual and monthly Resource Adequacy plans to the CAISO following existing RA plan submission timelines. The CPE will be subject to penalties for late/missing submissions. While the CPUC did adopt a multi-year procurement framework, the CAISO is not proposing to modify its processes to accept and validate multi-year RA showings at this time. The CPE should make annual showings to the CAISO. Additionally, since the CPE will be represented by a scheduling coordinator, it will be subject to the Scheduling Coordinator ID GMC Charge.

Finally, because the CAISO is creating an explicit opportunity to use a CPE, the CAISO proposes to delete the existing statement in section 40.3.3 that “Scheduling Coordinators for Load Serving Entities may aggregate responsibilities for procurement of Local Capacity Area Resources.” A CPE would serve this aggregation function and the CAISO determined that it could cause confusion to implement the formal and structured CPE approach while maintaining a parallel informal aggregation opportunity.

### **Stakeholder Comments**

CAISO continued to receive support for its proposal to recognize a CPE from CALCCA, CDWR, MRP, PG&E, and SCE. In comments on the CAISO proposed draft tariff language PG&E and SCE questioned the need for a pro forma agreement. The CAISO agrees with these stakeholders and has modified its proposal to add an additional sub-section 4 in the tariff and will no longer be requiring the CPE to execute a pro forma agreement. Today, the CAISO relies solely on a contractual relationship with the scheduling coordinator for a LSE and not the LSE itself. The CAISO will adopt that same approach with CPEs. PG&E and SCE also agreed with CAISO’s proposal to have separate SC IDs to represent the CPE and distinguish it from an organization’s role as an LSE. MRP commented that the CPE should not be barred from submitting bids into the market since the CPUC ordered the CPE to procure dispatch rights of resources when appropriate. The CAISO’s intent was only to say that resources would still need to have a scheduling coordinator but nothing would prevent the CPE and the resource from having the same scheduling coordinator. In any event, the proposed tariff amendments that are the subject of MRP’s comments have been withdrawn from the proposed section 4.18.

## **5.2 System and Local obligation for CPE and LSEs with Load in Multiple TAC Areas**

A CPE is designed to serve a procurement function rather than serve load. As such, a CPE will not be assigned a load share.<sup>16</sup> In the allocation methodology described in Section 40.3.2(a), a LSE will not be assigned a local obligation in excess of “its applicable Demand and Reserve Margin requirements for the applicable month”. In instances where a CPE or LSE does not have load share in a specific TAC area, but is assigned a local obligation by a LRA, the CAISO proposes to exempt the entity from this provision of the tariff and develop software enhancements to support this exemption. If not exempted, under the existing tariff the entity’s local obligation would be capped at 0 MWs, and would not be committed to show capacity to meet its assigned obligation.

On a separate but related issue, it has been brought to the CAISO’s attention that this tariff provision can have unintended consequences for LSEs with load in multiple TAC areas. For LSEs that serve load in multiple TAC areas they would be allocated a local obligation in each TAC area, but these local obligations would be capped at their entire system obligation. This could lead to higher local CPM cost allocation as compared to an LSE with load in a single TAC area. The CAISO proposes to modify Section 40.3.2(a) of the tariff and develop software enhancements to allow for LSEs with load in multiple TAC areas to cap an LSE’s local obligation at their applicable Demand and Reserve Margin requirements in each TAC area for the applicable month.

### **Stakeholder Comment**

CALCCA did not oppose the CAISO proposal to cap system and local obligations of CPEs and LSEs with load in multiple TAC areas. PG&E supports the modification made to the proposal. SCE also generally supported this proposal, but commented that that LSEs that self-show resources outside their TAC area should not be assigned any local RA obligation for that TAC area since it will not receive any of the CAM credits or other benefits that LSEs within the TAC area receive. Since the CAISO defers allocation of the local obligation to the CPUC, it will continue to do so under this proposal.

SCE asked for further clarification regarding the history and purpose of the existing Tariff Section 40.3.2.(a) that caps and LSE’s local obligation at their

system obligation to better assess the CAISO's proposal to modify this language for LSEs with load in multiple TAC areas. The CAISO has provided this background above.

CDWR requested that the CAISO modify its proposal to cap LSE's local obligation at their system obligation in both the annual and monthly time frame. They are concerned that for entities whose load is dependent on hydrology, the April load forecast could be drastically different from load forecast done later in the year. If an LSE fails to procure and if they received a CPM in the annual timeframe, but load changes or is capped in the monthly time frame, then this annual CPM would have been unnecessary. If the LSE did procure this additional supply then they would have over procured in the annual time frame relative to what their requirements were when capped in the monthly time frame. Though the LSE could sell this excess capacity, there's no guarantee that they would recover these additional costs in the monthly time frame.

The CAISO does not support CDWR's request. At CDWR's initial request, the CAISO proposed a minor incremental change to an existing tariff provision. The CAISO acknowledges that the capping provision added to the tariff through the RSI1b/RSI2 filing inadvertently did not address cases where a single LSE serves load in multiple TAC areas. CDWR's further request is far outside the narrow scope of the tailored amendment the CAISO already proposed. CDWR's new request is far more consequential to the overall RA program because it effectively would mark a change in how certain LSEs' load is forecasted for purposes of setting local RA requirements. First, this change requires significantly more consideration than can be afforded at this late stage in the stakeholder process. Second, the CAISO believes this request is detrimental to the Local RA program, designed from the beginning with the intention of eliminating year-long RMR contract. CAISO originally agreed to cap local at system in the monthly time frame as a compromise, in order to provide additional capacity that can be used for substitutions however the month ahead capping does not reduce the year-long local procurement responsibility of each LSE.

### **5.3 Allocation of System and Flexible Attributes of Local RA Resources**

The system and local RA attributes of a resource cannot be unbundled. In recognition of this, the CPUC ordered that the CPE continue to buy the bundled attributes of the resource and use CAM credits to allocate the system and flexible attributes of the resources to LSEs to help meet their own system and flexible RA obligations.

Today, the CAISO has software to validate CAM credits used by the CPUC to allocate the system attributes of IOU owned resources to other LSEs. To accommodate a CPE, the CAISO proposes to build off this existing functionality and implement separate fields in the LRA Credit templates in CIRA to accept and validate system CPE CAM credits. The CAISO will require that all CPE system credits allocated to LSEs must match the exact quantity of local RA resources shown by the CPE (or that the LRA expects the CPE to show).

The CAISO currently does not have the functionality to accept and validate flexible RA CAM credits. The CAISO proposes to build and implement separate fields in the LRA Credit templates in CIRA to accept and validate the CPE flexible CAM credits. Similarly if the LSE has a CPE, the CAISO will require that all flexible credits allocated to LSEs match the exact quantity of flexible RA capacity shown by the CPE (or that the LRA expects the CPE to show).

**Stakeholder Comments:**

CALCCA, PG&E and SCE supported the CAISO's proposal. However, PG&E advocated that the CAISO adopt a default allocation methodology for the system and flex credits if the LRA does not allocate the credits.

In order for the CAISO to adopt a default allocation methodology, it would need to know which LSEs the CPE was representing. The CAISO received feedback from PG&E and SCE on its proposal to have the CPE's notify the CAISO of the entities it represented, and requested the CAISO get this information from the LRA. Since the CAISO would have to get the list of LSEs from the LRA in the first instance, it would be the same point of failure that PG&E's proposal is trying to resolve, *i.e.*, the LRA's failure to coordinate allocation credits with the CAISO. Therefore, the CAISO does not believe a default provision would solve the problem that PG&E is concerned with, and believes that LRAs have every incentive to ensure capacity is not stranded and not expose their LSEs to greater system and flex backstop risks. The CAISO will continue to coordinate closely with LRAs to further minimize this risk. But ultimately, CPEs will exist because LRAs have adopted them so the CAISO believes it is appropriate to place the obligation on the LRA to inform the CAISO of the desired credit allocation.

## **5.4 Clarification of CPM Process and Cost Allocations**

The CAISO proposes to modify the tariff to apply the existing Capacity Procurement Mechanism (CPM) process and cost allocation methodology to a CPE as outlined in Tariff Section 43A, and how this process will apply to a CPE. While the CAISO expects minor changes to this tariff section to recognize a CPE

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in these processes, CAISO will likely need to update its settlement systems to allocate costs to a CPE in addition to individual LSEs in each TAC area.

After the annual and monthly showings deadline, the CAISO will look at the entire portfolio of shown RA resources to validate that the procured portfolio satisfies the capacity and energy requirements identified in the LCR study. If a deficiency is identified, the CAISO will offer a CPE and its LSEs an opportunity to cure the deficiency per Section 40.7. The CAISO will then have discretion to determine if additional capacity is needed to fulfill any remaining identified need, and will first designate an individual deficiency in Local Capacity Area Resources and allocate cost proportionally to all deficient LSEs and CPEs. Any remaining local capacity deficiency in the year ahead timeframe will be filled through a collective local CPM and allocated pro-rata to all LSEs with load in that respective TAC area.

Since under the current construct, a CPE is not assigned a load share, it would not be allocated CPM costs associated with a Collective Local CPM, System CPM, Flex CPM, Significant Event CPM or Exceptional Dispatch CPM.

### ***RA credits from CPM designations***

Currently, only LSEs can receive RA credits from applicable CPM procured resources, and LRAs are allowed to determine whether these credits should be allowed to count towards the RA requirements adopted by the LRA.<sup>17</sup> The CAISO proposes to modify this rule to allow CPEs to receive RA credits from CPM procured resources associated with the LSEs they are representing. Additionally, the CAISO proposes to allow LRAs to reallocate these credits to its CPE(s) and LRA(s) in the same way they can reallocate RMR credits among their jurisdictional entities today.<sup>18</sup>

### ***CPM Cost Allocation under the CPUC's Hybrid Procurement Framework***

Under the hybrid procurement framework adopted by the CPUC, LSEs are allowed to self-show Local RA capacity to the CPE to reduce the CPE's overall local capacity procurement target while retaining the system and flex attributes of the resource for themselves. However, unless the LRA transfers the local obligation back to that LSE, the CPE will still be responsible for meeting the entire local obligation at the CAISO. In discussions with CPE staff, there is a

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<sup>17</sup> See Tariff Section 43A.9e

<sup>18</sup> See Tariff Section 41.8

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concern about how CPM cost allocation would work if LSEs self-show resources to the CPE but fail to show these same resources to the CAISO.

As a general principle, the CPM cost allocation for an individual local RA deficiency will follow the entity assigned the local obligation by the LRA. Therefore, CPM backstop costs will be allocated according to how the LRA apportioned the local capacity obligation. If the CPUC assigns the entire local obligation to the CPEs, as specified in D.20-06-002, then the CPE will carry the backstop cost risk. When making a CPM need determination, the CAISO will continue to look at the full portfolio of resources shown by all LSEs and CPEs and will also consider resources voluntarily shown by individual LSEs that may have agreed to self-show to their CPE or the CAISO. However, if LSEs fail to show their resources, and/or a deficiency is identified, CPM costs will first be allocated to individual deficient LSEs or the CPE, as applicable. The CPE will likely have the largest local obligation since it will be allocated a proportionate share of the CPM costs. It will be up to the CPUC to decide how to re-allocates any CPM costs received by the CPE to its jurisdictional LSEs.

If the CPUC and parties would like to change this, they will need to submit proposals in CPUC proceeding R.21-10-002 to modify the original CPUC decision that prohibits the CPUC from allocating local obligations to individual LSEs. Modifying the decision would allow the CPUC to re-allocate the local obligation to those LSEs that agreed to self-show their resources, and thereby allow the CAISO to allocate CPM costs directly to those LSEs if they fail to show their resources to the CAISO and a deficiency is identified and cured by the CAISO under its CPM authority.

### ***RMR cost allocation and credits***

For resources that the CAISO deems as Reliability Must Run units, the CAISO allocates the cost of these resources to LSEs proportional to their load in each applicable TAC area(s). The CAISO does not propose any modifications of the cost allocation methodology for RMR to account for the CPE, and will continue to allocate costs directly to LSEs. The CAISO will continue to give the CPUC the RMR credits to allocate to its jurisdictional LSEs, and the CPUC can decide if it would like to allocate the local attributes of the resource to the CPEs and system and flex attributes to LSEs, and the CAISO will accept this allocation.

### **Stakeholder Comments:**

The CAISO received mixed feedback on its proposal to include the CPE into existing CPM processes. CDWR offered no additional comment, but in

comments to the straw proposal agreed that the CPE should be allocated CPM costs for individual local RA deficiencies, and receive RA credits after the cost allocation.

CALCCA does not oppose the CAISO proposal, and advocated that the CPE should receive CPM cost allocation for both individual and collective local deficiencies. But they also raised concerns about how the CAISO's proposal for the CPUC to transfer the local obligation back to entities that agree to self-show resources under consideration in the CPUC proceeding would further disincentivize LSEs to self-show resources to the CPE.<sup>19</sup> The CAISO leaves it up to the CPUC to decide how best to balance self-showing incentives under the hybrid procurement framework, and the CAISO will continue to assign back stop cost of individual deficiencies to the entities assigned the upfront local RA obligation. However, the CAISO has not changed its proposal to allocate collective local deficiencies to LSEs on a pro rata basis.

SCE is generally supportive of system changes needed to implement the CPE, including whatever updates may be necessary to accommodate the CPE and hybrid framework adopted by the CPUC into its CPM process and cost allocation.

MRP commented that only to the extent the CPE's re-allocation of CPM costs to its LSEs uses a different methodology than the pro rata basis used by the CAISO does it make sense to allocate costs directly to the CPE. Under the hybrid procurement framework, the CPUC could direct the CPE to allocate costs differently to entities that agree to self-show resources. To allow this flexibility and in keeping with cost causation principles, the CAISO believes it is prudent to assign backstop costs to the entities assigned the local obligation by the LRA, *i.e.*, the CPE. MRP's suggestion that the CAISO continue to assign individual CPM costs pro rata to LSEs would violate the CAISO's principal that the backstop allocation follows the upfront allocation. To the extent that the LRA has not assigned the LSE a local obligation, it would be a violation of this principal for the CAISO to assign back stop costs to that entity.

PG&E reiterated their comments from the straw proposal that offered an alternate proposal for CPM cost allocation of local RA deficiencies. They suggested the CAISO modify its tariff to allow LRAs to determine their own cost allocation methodology for individual local deficiencies and the CAISO would have default provisions. They argue that this would allow for greater flexibility to

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<sup>19</sup> See <http://www.caiso.com/Documents/Dec23-2021-Phase1-Proposals-ResourceAdequacy-R21-10-002.pdf>



accommodate any changes the CPUC may make to the CPE or hybrid procurement framework. The CAISO continues not to support this proposed alternative. This proposal could break cost causation principles in that the CPUC could assign costs to an entity that was not responsible up front for meeting the local RA obligation. Under the proposed tariff changes from this initiative, the CPUC would be permitted to allocate the local RA obligation up front to its jurisdictional entities including CPEs however it sees fits, as long as it sums to the total local obligation assigned to the CPUC by the CAISO. If the CPUC wants the CAISO to allocate local individual deficient CPM cost assigned to a different entity other than the CPE, then the CPUC needs to allocate the local requirement to that entity prior to showings being submitted and the CAISO's CPM process running, not after the fact.

PG&E cites tariff provisions related to the Flex RA program that allows an LRA to determine their own Flex RA allocation methodology and CAISO has default provisions. However, this tariff section does not support PG&E's proposal to apply similar provisions to Local RA. These Flex RA tariff provisions outline that the LRA can determine the upfront Flex RA allocation that will be used in the CPM cost allocation, and the CAISO has default allocation provisions if this is not established. This maintains cost causation principles by aligning the cost allocation methodology with the upfront requirement allocation methodology. This process already exists for local RA, and the CAISO will assign costs that align with how the LRA assigned the local RA requirements in advance of the annual and monthly showings process. Practically speaking, the CAISO settlement system also cannot accommodate annual changes to the CPM cost allocation methodologies as suggested in PG&E's proposal.

## **6 RAAIM Settlement Modification**

### **6.1 Background**

The CAISO has identified an issue with the Resource Adequacy Availability Incentive Mechanisms (RAAIM) settlements that requires modification. RAAIM consists of a system of non-availability charges and availability incentive payments to scheduling coordinators of RA resources. These charges and credits are determined for each individual RA resource based on an assessment of how often during the each calendar month that capacity was bid into the CAISO's real-time market, which is then translated into a monthly availability percentage. If a resource falls below 94.5 percent of its must offer obligation, the CAISO assess a non-availability charge for the month. If the resource's

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availability exceeds 98.5 percent of its must offer obligation, it is eligible for an availability incentive payment for the month. If the resource falls between 94.5-98.5 percent, it does not receive a charge or payment.

There is a limit placed on the amount of availability incentive payments that can be allocated in any month but not on the amount of non-availability charges collected. Any excess non-availability charges above this limit are then rolled over to be used in future months. At the end of the year, any excess funds are distributed to metered demand or LSE obligation. **Figure 1 provides an example of the initial statement of the RAAIM Settlement and Invoice.**

**Figure 1: Initial Statement RAAIM Settlement and Invoice**

Initial Settlement Statement							
	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Year End Distribution
Generic RA and CPM							
Non-Availability Charges Assessed	\$3,030,986	\$2,038,910	\$2,566,206	\$4,606,974	\$3,929,650	\$3,970,495	-
Incentive Payment	\$(2,157,973)	\$(2,282,794)	\$(2,227,271)	\$(1,465,107)	\$(922,565)	\$(1,092,855)	\$(9,994,656)
Generic RA Carryover Amount	\$873,013	\$629,129	\$968,064	\$4,109,931	\$7,117,016	\$9,994,656	-
Flex RA and CPM							
Non-Availability Charges Assessed	\$460,097	\$740,015	921,361	928,693	821,771	1,209,131	-
Incentive Payment	(460,097)	(740,015)	(840,453)	(1,009,601)	(821,771)	(1,209,131)	-
Flex RA Carryover Amount	-	-	80,908	-	-	-	-

Initial Settlement Invoice							
	44,013	44,044	44,075	44,105	44,136	44,166	Year End Distribution
Net RAAIM Assessment Charge	3,491,083	2,778,925	3,487,567	5,535,667	4,751,421	5,179,626	
Net RAAIM Incentive Payment	(2,618,070)	(3,022,809)	(3,067,724)	(2,474,708)	(1,744,336)	(2,301,986)	(9,994,656)
RAAIM Balancing Account	873,013	629,129	1,048,972	4,109,931	7,117,016	9,994,656	(9,994,656)

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This mechanism has created several challenges that were discussed in a CAISO waiver request filed at FERC.<sup>20</sup> In that filing, the CAISO committed to explore ways to change the carry-forward mechanism that would avoid future waiver filings. As explained in the filing, the carry-forward mechanism creates a financial issue when a settlement recalculation determines that an RA resource that was initially assessed RAIM charges is due a refund or reduction of those charges. The only possible source for the refund is the pool of unallocated RAIM charges that is awaiting year-end distribution. But if a refund obligation were to arise at a point when there are not sufficient unallocated funds with which to pay, as occurred in connection with the waiver filing, it would be impossible for the CAISO to comply with its tariff obligations and pay the refunds. This would not be the case if excess RAIM charges were distributed monthly, because that would allow the ISO to resettle the excess distribution, recovering part of it, to pay the refunds. **Figure 2 below provides an example of a recalculated statement and invoice as the result of a refund.**

**Figure 2: Recalculation Statement and Invoice**

Settlement Recalculation Statement							
	44,013	44,044	44,075	44,105	44,136	44,166	Year End Distribution
<b>Generic RA and CPM</b>							
Non-Availability Charges Assessed	2,585,986	2,038,910	2,566,206	4,606,974	3,929,650	3,970,495	-
Incentive Payment	(2,157,973)	(2,282,794)	(2,227,271)	(1,465,107)	(922,565)	(1,092,855)	(9,549,656)
Generic RA Carryover Amount	428,013	184,129	523,064	3,664,931	6,672,016	9,549,656	-
<b>Flex RA and CPM</b>							
Non-Availability Charges Assessed	460,097	740,015	921,361	928,693	821,771	1,209,131	-
Incentive Payment	(460,097)	(740,015)	(840,453)	(1,009,601)	(821,771)	(1,209,131)	-
Flex RA Carryover Amount	-	-	80,908	-	-	-	-

<sup>20</sup> For more details and background on this issue see FERC Waiver submitted on April 10, 2020 <http://www.caiso.com/Documents/Apr10-2020-PetitionforLimitedWaiver-RAAIM-ER20-1552.pdf>

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Recalculation Invoice	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Year End Distribution
Net RAAIM Assessment Charge	3,046,083	2,778,925	3,487,567	5,535,667	4,751,421	5,179,626	-
Net RAAIM Incentive Payment	(2,618,070)	(3,022,809)	(3,067,724)	(2,474,708)	(1,744,336)	(2,301,986)	(9,549,656)
Net Invoice Amount	(445,000)	-	-	-	-	-	445,000

A comparison of the settlement invoice of RAAIM charges and payment between the Initial Settlement statement (Figure 1) and the Recalculation Settlement Statements (Figure 2) indicates that change in RAAIM obligation for July 2020 due to dispute resolution results in the ISO having to fund the \$445,000 net invoice change for seven months. There is this seven month ISO funding period because the \$445,000 needs to be collected from the participants which received the Year End distribution.

## 6.2 Proposal

The CAISO proposes to modify the current RAAIM settlement processes to eliminate the rule that unavailability charges assessed in excess of the monthly cap will roll-over to fund allocations in future months. Rather than rolling excess funds into the next month, the CAISO proposes to allocate the excess based on activity in that trading month according to the allocation formula that currently applies to the year-end allocation. The CAISO will allocate any excess RAAIM charges for Generic RA or Flexible RA to metered demand. Figure 3 and Figure 4 below provides an illustrative example of the impact of this policy change on the RAAIM Settlement and invoice.

Based upon the proposal, the ISO settlement system will allocated any excessive RAAIM funds to measured demand in the month that the excess occurs. Figure 3 and Figure 4 demonstrates the settlement charges and payment for Trade Period July 2020 to December 2020. Figure 4 also highlights the settlement of RAAIM charges and payment when a participants RAAIM obligation changes in the Settlement recalculation statement/invoice from the Initial Settlement Statement/Invoice. The RAAIM obligation become isolated to the month in which the obligation change occurred and not carried over to future period because the excess RAAIM distribution delta offsets the RAAIM Assessment delta. In other words, the settlement system will collect \$445,000 from measured demand in order to payback the participant(s) whose RAAIM obligation was reduced by \$445,000.

This proposal has several benefits. First, eliminating the monthly roll-over ensures that the resettlement issues that necessitated the CAISO's April 10,

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2020 waiver filing will not recur. Second, allocating excess funds based on metered demand will simplify the calculation. Third, eliminating the monthly roll-over rule should increase the effectiveness of RAAIM by ensuring that a resource's performance in a given month is either paid or charged for that month. The current design can allow a resource that is charged in one month have those same funds refunded in a later month. Additionally, by allocating the excess funds to metered demand, LSEs will be compensated for resources that did not perform in accordance to their RA contract obligations. Finally, this change ensures that RAAIM settlements charges and credits all take place within the month in which they are incurred. This will address the burden on the CAISO's reserve account.

**Figure 3: New RAAIM Initial Settlement**

Initial Settlement Statement						
	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
<b>Generic RA and CPM</b>						
Non-Availability Charges Assessed	3,030,986	2,038,910	2,566,206	4,606,974	3,929,650	3,970,495
Incentive Payment	(2,157,973)	(2,038,910)	(2,227,271)	(1,465,107)	(922,565)	(1,092,855)
Monthly Distribution	(873,013)	-	(338,935)	(3,141,867)	(3,007,085)	(2,877,640)
<b>Flex RA and CPM</b>						
Non-Availability Charges Assessed	460,097	740,015	921,361	928,693	821,771	1,209,131
Incentive Payment	(460,097)	(740,015)	(840,453)	(928,693)	(821,771)	(1,209,131)
Monthly Distribution	-	-	80,908	-	-	-
<b>Initial Settlement Net Invoice</b>	<b>44,013</b>	<b>44,044</b>	<b>44,075</b>	<b>44,105</b>	<b>44,136</b>	<b>44,166</b>
Net RAAIM Assessment Charge	3,491,083	2,778,925	3,487,567	5,535,667	4,751,421	5,179,626
Net RAAIM Incentive Payment	(2,618,070)	(2,778,925)	(3,067,724)	(2,393,800)	(1,744,336)	(2,301,986)
RAAIM Monthly Distribution	(873,013)	-	(258,027)	(3,141,867)	(3,007,085)	(2,877,640)

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**Figure 4: New recalculation settlement and invoice**

Settlement Recalculation Statement						
	44,013	44,044	44,075	44,105	44,136	44,166
Generic RA and CPM						
Non-Availability Charges Assessed	2,585,986	2,038,910	2,566,206	4,606,974	3,929,650	3,970,495
Incentive Payment	(2,157,973)	(2,038,910)	(2,227,271)	(1,465,107)	(922,565)	(1,092,855)
Generic RA Carryover Amount	(428,013)	-	(338,935)	(3,141,867)	(3,007,085)	(2,877,640)
Flex RA and CPM						
Non-Availability Charges Assessed	460,097	740,015	921,361	928,693	821,771	1,209,131
Incentive Payment	(460,097)	(740,015)	(840,453)	(928,693)	(821,771)	(1,209,131)
Flex RA Carryover Amount	-	-	80,908	-	-	-

Recalculation Invoice	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Net RAIM Assessment Charge	3,046,083	2,778,925	3,487,567	5,535,667	4,751,421	5,179,626
Net RAIM Incentive Payment	(2,618,070)	(2,778,925)	(3,067,724)	(2,393,800)	(1,744,336)	(2,301,986)
Net Monthly Distribution	(428,013)	-	(258,027)	(3,141,867)	(3,007,085)	(2,877,640)
Net Invoice Amount	-	-	-	-	-	-

**Stakeholder Comments:**

The CAISO received supportive comments from CALCCA, PG&E, and SCE on these proposed changes. PG&E strongly supports the elimination of the RAIM carry-forward mechanism, and believes the CAISO is well-justified to move to a more simplified and fair process to distribute the excess RAIM charges. CDWR did not object.

Middle River Power continues to oppose this policy change for many reasons. They argue that the CAISO has not clearly articulated why its proposal is better than other alternatives to solve the problem. MRP understands the identified issue to be if there is a refund obligation that arises when there are insufficient

unallocated RAIM penalty funds to pay the genitor. The CAISO has stated that it is unable to prioritize refunds to be paid out of surplus RAIM penalty roll-overs because of neutrality rules within the Tariff. MRP states they do not understand the reasoning behind this issue and wants additional discussion. The CAISO has provided an illustrative example of the settlement issue, and how the CAISO's proposal would address this issue to provide additional clarity on the issue.

MRP believes this proposal would create fewer incentives for resources to maintain reliability in the long run, because there may not be sufficient funds to pay the 3X incentive cap. MRP advocates that the CAISO use penalty funds collected in the month, along with any roll-over RAIM surpluses to pay a refund before paying out any incentive payments, as an alternative to the CAISO's proposal to eliminate the monthly-roll over. The ISO appreciates MRP suggestion. However, Figure 1 and 2 demonstrate that even if the ISO adopts a First In, First Out methodology, the ISO's clearing of the market would still require the ISO to fund the RAIM obligation change between July 2020 and year-end distribution.

## **7 EIM Governing Body Role**

The role of the EIM Governing Body with respect to policy initiatives changed on September 23, 2021, when the Board of Governors adopted revisions to the corporate bylaws and the Charter for EIM Governance to implement the Governance Review Committee's Part Two Proposal. Under the new rules, the Board and the EIM Governing Body have joint authority over any proposal to change or establish any CAISO tariff rule(s) applicable to the EIM Entity balancing authority areas, EIM Entities, or other market participants within the EIM Entity balancing authority areas, in their capacity as participants in EIM. This scope excludes from joint authority, without limitation, any proposals to change or establish tariff rule(s) applicable only to the CAISO balancing authority area or to the CAISO-controlled grid.

Charter for EIM Governance § 2.2.1 None of the tariff rule changes currently contemplated in this initiative would be "applicable to EIM Entity balancing authority areas, EIM Entities, or other market participants within EIM Entity balancing authority areas, in their capacity as participants in EIM." The proposed tariff rules would be applicable "only to the CAISO balancing authority area or to the CAISO-controlled grid." Accordingly, the matters scheduled for approval in March 2022 fall outside the scope of joint authority.

The “EIM Governing Body may provide advisory input over proposals to change or establish tariff rules that would apply to the real-time market but are not within the scope of joint authority.” No aspects of this initiative would apply or impact the real time market, therefore this initiative also falls outside of the EIM Governing Body advisory role.

Stakeholder comments were generally supportive of this EIM Governing Body classification, and no objections were raised.

## **8 Next Steps**

The CAISO will discuss this issue paper/straw proposal with stakeholders during a stakeholder meeting on February 15, 2022. Stakeholders are asked to submit written comments by March 1, 2022 through the commenting tool. A comment template will be posted on the CAISO’s initiative webpage here:

<https://stakeholdercenter.caiso.com/StakeholderInitiatives/Central-procurement-entity-implementation>