

Decision on Interim Capacity Procurement Mechanism



Philip D. Pettingill, P.E., Manager,
Infrastructure Policy and Contracts



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The history of this initiative

- 🌐 “Backstop” established following 2000-2001 energy crisis
- 🌐 Updated in 2006 in Reliability Capacity Services Tariff
- 🌐 RCST expires at MRTU start-up
- 🌐 ICPM stakeholder process began in April 2007
- 🌐 Next step: File tariff language

What is the purpose of this initiative?

- 🌐 Provides CAISO with the ability to procure capacity, if necessary, to serve load and reliably operate grid
 - Fill Resource Adequacy deficiencies
 - “Significant Event” might occur that results in a need for additional capacity

Why is this an “interim” solution?

- 🌐 Provide tariff-based mechanism to access non-RA resources under MRTU (no FERC Must Offer)
- 🌐 Interim term allows RA programs to be enhanced
- 🌐 Need appropriate pricing, with long-term incentives
- 🌐 Will be back to Board after long-term Resource Adequacy design is completed

Seven key elements of the ICPM initiative

- 🌐 Sunsets December 31, 2010
- 🌐 Designation is 1 month up to 12 months
- 🌐 Opportunity to cure prior to CAISO procurement
- 🌐 Costs charged to deficient LSE, or spread to the appropriate transmission area if “no fault”
- 🌐 Broad CAISO discretion for Significant Events
- 🌐 Robust reporting

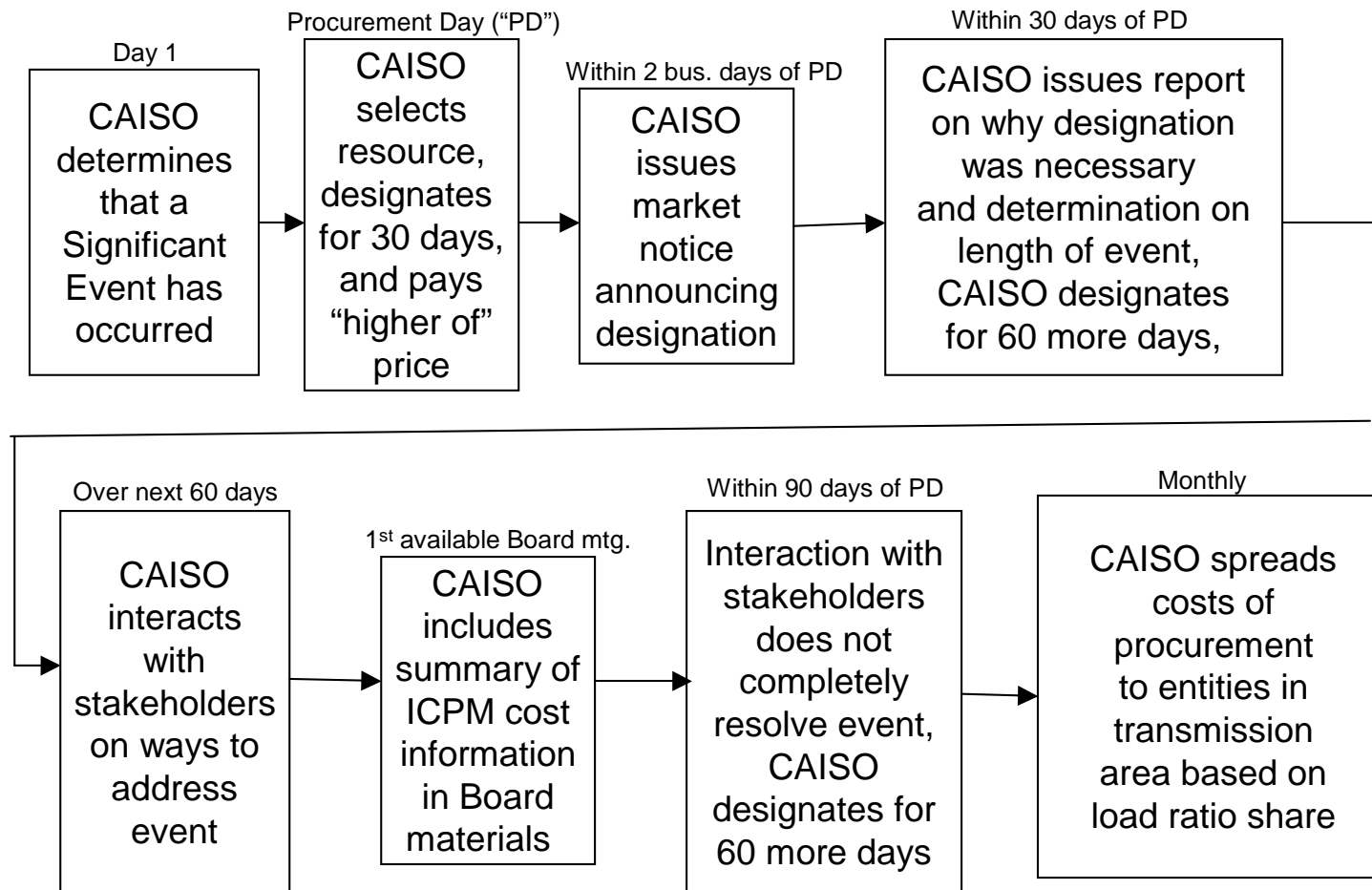
Seven key elements (continued)

Price

- Capacity payment for recovery of “going-forward costs”
- \$41/kW-year, or higher rate approved by FERC
- Resources keep market revenues
- Opportunities to earn from more market features in MRTU
- Resource owners can decline designation
- Minimizes impact to forward RA contracting

How do ICPM elements work together?

Example: Significant Event that lasts for 5 months



Management recommends approval – ICPM proposal balances diverse stakeholder interests.

- 🌐 Price: Covers going-forward costs, allows FERC filing for costs greater than \$41/kW-yr, resources keep all market revenues
- 🌐 Significant Event: Reasonable discretion to meet CAISO needs, 3-step procurement process, extensive reporting
- 🌐 Voluntary designation: No FERC Must-Offer Obligation, pricing provides adequate incentives
- 🌐 ICPM procurement in RA showings: Appropriate for all RA backstop, may increase CAISO procurement if allowed for Significant Events
- 🌐 Interim Tariff: Sunsets on 12/31/10, not prejudged long-term RA proceeding, return with successor at appropriate time