



Decision on central procurement entity implementation and resource adequacy availability incentive mechanism settlement modification

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Management proposes several updates to the resource adequacy (RA) program

- Central Procurement Entity (CPE) Adoption: Changes ISO's tariff to shift local RA obligations from Load Serving Entities (LSEs) to a Central Procurement Entity, in time for CPUC implementation in RA year 2023
- RA Obligation: Modifies the cap for system and local RA obligations in the monthly time frame
- Resource Adequacy Availability Incentive Mechanism (RAAIM): Reforms RAAIM settlement changes to meet FERC obligation and resolve financial liability

Issue #1: Management proposes functionality to implement a CPE in the ISO's tariff

- Creates a new entity called a CPE that is represented by a scheduling coordinator
 - Allows Local Reliability Authority (LRAs) to allocate local RA obligations to a CPE
- Changes software and settlement to enable CPE functionality
- Clarifies how a CPE would be treated under existing backstop capacity procurement processes and associated cost allocation

Stakeholders generally support Management's CPE proposal

- Stakeholders support a CPE having an RA showing obligation
- Majority of stakeholders support clarifications to incorporate the CPE into the Capacity Procurement Mechanism (CPM) and cost allocation process
 - One stakeholder argued the ISO should allocate costs of collective local CPM to the CPE, and another stakeholder disagreed with the ISO's application of cost causation principles
 - Management believes its proposal aligns with the CPUC Order to allocate CPM costs directly to the CPE

Issue #2: Management proposes to provide equal treatment for LSEs operating in single and multiple Transmission Access Charge (TAC) areas

- Current provisions cap an LSE's local RA obligation at their monthly system obligation
 - Local obligation based on annual peak requirement that can be more than system requirement in off peak months for LSEs with large local areas
 - Only applies to LSEs operating in a single TAC area
- Propose change to also cap local RA obligation at monthly system level for LSEs that serve load in multiple TAC areas
- Stakeholders support proposed change

Issue #3: Management proposes to eliminate the monthly roll-over of RAIM penalty funds

- Current provisions limit amount of monthly payments to RA suppliers which can result in surplus revenues collected from RAIM charges
 - Excess funds are rolled over and allocated to load annually
 - Can result in financial burden and compliance issues for ISO if settlement recalculation occurs
- Propose that excess RAIM funds be allocated monthly to load
 - Eliminating the monthly roll over of funds resolves financial and compliance issues

Stakeholders generally support the RAIM Settlement Modification

- Stakeholders representing load unanimously support eliminating the monthly roll over
- One stakeholder representing generators opposes the elimination of the monthly roll over and advocates that the ISO should prioritize paying refunds of RAIM penalties rather than paying incentives
 - The carry-over mechanism exposes the ISO to financial risk when the distribution of the adjusted RAIM funds are from prior months
 - Their alternate proposal doesn't address the core financial liability issue this proposal resolves or provides correct incentives

Management recommends the Board of Governors approve the proposed updates to the RA rules

- Facilitates implementation of CPEs for the 2023 RA year
- Provides equitable treatment of local RA requirements for LSEs operating in multiple TAC areas
- Address RAAIM settlement and compliance issues