# Decision on commitment cost enhancements

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# Previous resource adequacy design enhancements provide for increased availability of RA resources

- Reliability services policy initiative established availability incentive mechanism for RA resources (finalized in 2016)
  - penalizes low availability and rewards high availability
- Commitment cost enhancements phase 3 optimizes dispatch of use-limited resources (finalized 2016)
  - Enables use-limited resources to reflect an opportunity cost for market dispatch to ensure dispatched when most needed
  - Provides for equal treatment of use-limited and non use-limited resource adequacy resources

# A use-limited designation may not be sufficient for certain resources to participate in the market

- Use limited resources cover limitations that can be measured and allocated over time, and the market can optimally dispatch
- Other resources are conditionally available and not able to participate in the market 24x7
  - The ISO classifies these as conditionally available resources
  - Examples include a gas resource that cannot operate after 10:00pm because of noise restrictions, or a hydro resource that is limited because of regulatory obligations
- Run-of-river hydro resources are not able to control their output
  - Run-of-river resources behave similar to existing variable energy resources and do not need incentives to be available

# Management proposes to clarify provisions for conditionally available and run-of-river resources

- Clarify that conditionally available resources are not exempt from the availability incentive mechanism
  - Aligns with reliability services policy to reward resources based on their availability
  - Provides incentives for providing substitute capacity when resource is unavailable
  - Charges resources that are showing capacity but are unavailable and no substitute provided
- Clarify that run-of-river resources should be self scheduled at their forecast output
  - Treat similar to wind and solar resources
  - Not subject to the availability incentive mechanism

# Management is working with SCE and PG&E to establish an alternative counting methodology for hydro resources with limited storage

- The ISO, SCE, and PG&E provided a joint proposal for alternative counting methodology to the CPUC
  - Capacity values based on historical output of the facility
  - Accounts for possible low hydro conditions
  - Provides incentives for resources to maximize availability

- If adopted by the CPUC, resources under the alternative counting methodology could be exempt from current availability incentive mechanism

# Stakeholder support mixed for the proposed changes

- PG&E, SCE, and Six Cities generally do not support exposing conditionally available resources to the availability incentive mechanism
  - Could be challenging for the hydro fleet
  - Management outlined methods for hydro resources to avoid availability incentive charges and is actively working with the CPUC to develop an alternative counting methodology

- Most stakeholders support treating run-of-river resources similar to variable energy resources

# Management recommends the Board approve the following proposed tariff changes

- Clarify tariff language that resources can be both use-limited and conditionally available
- Clarify that conditionally available resources are subject to availability charges when unavailable during availability assessment hours
- Exempt run-of-river resources from availability incentive mechanism
  - submit self schedules based on forecast output, similar to variable energy resources
- Allow hydro resources with limited storage to be exempt from the availability incentive mechanism if an alternative counting methodology is adopted at the CPUC

# Management proposes the following motion:

**Moved, that the ISO Board of Governors approves the commitment cost enhancements proposal described in the memorandum dated March 18, 2020; and**

**Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposal described in the memorandum, including any filings that implement the overarching initiative policy but contain discrete revisions to incorporate Commission guidance in any ruling on the proposed tariff amendment.**