

Memorandum

To: ISO Board of Governors

From: Neil Millar, Vice President of Infrastructure and Operations Planning

Date: July 7, 2021

Re: **Decision on reliability must-run designation for Agnews Power Plant**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management seeks the Board of Governors' authorization to designate the Agnews Power Plant unit for reliability must-run (RMR) service, subject to negotiation of an RMR contract with rates, terms and conditions reasonably acceptable to Management, to ensure compliance with reliability criteria applicable to the balancing authority area.

On November 20, 2020, O.L.S. Energy-Agnews, Inc. (OLSEA) submitted notice of retirement for the Agnews Power Plant generating unit, effective November 1, 2021.

The ISO's Local Capacity Technical Report for 2022 demonstrates that the Agnews Power Plant is required for reliable operation of the local transmission system and is needed for the ISO's local reliability needs in 2022. Moreover, the reliability need cannot be addressed with other alternatives.

Management therefore seeks Board approval of the designation of the Agnews Power Plant unit as an RMR resource, in order to prevent their imminent retirement/mothballing. Management notes that neither the RMR designation nor the execution of an RMR agreement precludes the resource from being procured as a resource adequacy resource by a load serving entity.

Management recommends the following motion:

Moved, that the ISO Board of Governors authorizes Management to designate the Agnews Power Plant unit for reliability must-run service contingent upon execution of a reliability must-run contract with rates, terms and conditions acceptable to Management, as described in the memorandum dated July 7, 2021.

DISCUSSION AND ANALYSIS

The Agnews Power Plant is required to meet the 2022 local capacity requirement in the San Jose sub-area of the Bay Area local area. The sub-area local capacity requirement has been determined to be 989 MW, and there are 848 MW of total available resources in the sub-area including the Agnews Power Plant unit. Currently there is no approved alternative to mitigate the need for this resource. At this time, the resource is under a resource adequacy contract until October 31, 2021 and it is actively seeking a new resource adequacy contract.

In light of the local reliability needs and in order to prevent imminent resource retirement, ISO Management proposes to designate the Agnews Power Plant unit as reliability must-run resource under tariff section 41. Upon designation, OLSEA would then be expected to develop their proposed cost of service rate schedules based on the ISO *pro forma* RMR Agreement. Time permitted, ISO staff would then work with OLSEA prior to OLSEA filing the RMR agreement with FERC.

POSITION OF PARTIES

The owners' intention to retire the Agnews Power Plant unit was posted on the ISO's website in November 2020 as part of the ISO's process to provide transparency regarding potential retirements.

The ISO has discussed the proposed RMR designation with stakeholders in a call on March 11, 2021, and April 7, 2021, where the draft and final 2022 and 2026 local capacity study results were presented. Furthermore, the ISO presented the same information during the May 18, 2021, stakeholder call dedicated exclusively to the potential designation of the Agnews Power Plant as a reliability must-run resource.

The findings have been included in the final 2022 Local Capacity Technical Report, dated April 30, 2021, and already filed with CPUC and available on the ISO web site: <http://www.caiso.com/Documents/Final2022LocalCapacityTechnicalReport.pdf>.

Stakeholder questions and comments received during the stakeholder meeting and subsequent stakeholder call as well as in written form acknowledge the local reliability need for these resources.

In their written comments to the May 18, 2021, stakeholder call, Cal CCA and PG&E recommend that the reliability must-run designation be made system-wide rather than local due to a potential system-wide need in 2022.

The ISO disagrees with this proposed approach:

- Local reliability needs have been the foundational basis for the ISO's RMR designations for more than 20 years. Local reliability needs are shown through the annual local capacity technical study, which demonstrates the need for the Agnews designation, or other studies as may be necessary and appropriate to demonstrate a need to address other local issues, such as for voltage support. Although the ISO tariff permits the ISO to designate resources for system reliability needs based on system reliability study, the ISO tariff is clear that section 41.2 provides that the ISO study drives the RMR designation. Tariff section 41.9 allocates RMR cost responsibility to demand within the PG&E footprint. The ISO's designation is based on the local need described in this memorandum.
- Local designations should prevail in the event a resource is needed for both local and system needs. PG&E and other customers within its footprint should bear the costs of a local designation. Local cost allocation maintains the appropriate and longstanding incentive for PG&E, in this case to make the infrastructure investment to address the local issue. Once the local infrastructure issue is addressed and if system reliability needs require the resource to be retained under an RMR contract, the RMR designation transitions to a system designation and system cost allocation.

Written stakeholder comments received after the preparation of this memo will be discussed at the Board meeting.

CONCLUSION

Management recommends and seeks the ISO Board approval of the designation of the Agnews Power Plant unit as an RMR resource.