

Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President of Market & Infrastructure Development

Date: July 18, 2018

Re: **Decision on reliability must-run designation for the Ellwood Generating Station and the Ormond Beach Generating Station**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management seeks Board approval of the reliability must-run designation (RMR) designation of the Ellwood Generating Station and one of the generating units at the Ormond Beach Generating Station. Management notes that neither the RMR designation nor the execution of an RMR agreement precludes the resources from being procured as a resource adequacy resource. In instances where a resource is both an RMR and a resource adequacy resource, the compensation available under the RMR agreement would be adjusted accordingly to ensure the absence of duplicative compensation, but the RMR contract would be available to compensate for costs that are not recoverable under the resource adequacy power purchase agreement.

On February 28, 2018, NRG California South LP (“NRG California South”) provided notice to the CPUC pursuant to General Order 167 of its intention to shut down and retire the Ormond Beach Generating Station (Ormond Beach) as of October 1, 2018 and the Ellwood Generating Station (Ellwood) as of January 1, 2019. Notice was also provided to the ISO for purposes of initiating the appropriate changes to the market participation agreements with the ISO regarding these generating stations.

The ISO’s 2017-2018 Transmission Plan, approved by the Board of Governors in March 2018, anticipated the retirement of Ormond Beach coincident with its once-through cooling compliance date of December 31, 2020. Ellwood does not rely on once-through cooling but was nonetheless anticipated to be retired in the 2022-2027 time frame due to its age, the identified need for refurbishment, and previous failures to obtain regulatory approval for negotiated contracts with Southern California Edison. As set out in the 2017-2018 Transmission Plan, the following upgrades are underway to mitigate the reliability impacts of these retirements:

- The Pardee-Moorpark 230 kV transmission project was approved in March to address the local capacity concern in the Moorpark sub-area. The project has an in-service date of December 31, 2020.
- SCE is in the early stages of procuring preferred resources and storage to meet the Santa Clara sub-area need as identified in March. The new resources are expected to be online in 2021.

In the meantime, the ISO's 2019 Local Capacity Technical Study confirmed that Ellwood and one of the Ormond Beach generating units are required for the reliable operation of the transmission system in 2019. Since the area load is forecast to increase in 2020 and beyond, these generating units are expected to be required until the mitigations identified in the 2017-2018 Transmission Plan are in place.

Management recommends the following motion:

Moved, that the ISO Board of Governors authorizes Management to designate the Ellwood Generating Station and one unit at the Ormond Beach Generating Station 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 18, 2018.

DISCUSSION AND ANALYSIS

The Ellwood Generating Station and one unit at the Ormond Beach Generating Station have been found to be required to meet local capacity requirement in the Santa Clara sub-area and the Moorpark sub-area, respectively, in the Ventura Area. Note the Santa Clara sub-area is nested inside the Moorpark sub-area, and that of the two generating stations, only Ellwood is inside the Santa Clara sub-area.

The Santa Clara sub-area local capacity requirement has been determined to be 237 MW, which would be greater than the sum of all total available resources in the sub-area if Ellwood is allowed to retire. Removing Ellwood will result in a sub-area deficiency of approximately 45 MW.

The Moorpark sub-area local capacity requirement has been determined to be 433 MW, and the remaining capacity should Ormond Beach retire is only 263 MW, including Ellwood. Removing Ormond Beach will result in a sub-area deficiency of 170 MW, which can be addressed by one of the Ormond Beach generating units.

In light of the reliability needs, Management proposes to designate the Ellwood Generating Station and one unit at the Ormond Beach Generating Station as reliability must-run resources under tariff section 41. NRG California South would then be expected to develop its proposed cost of service. ISO staff would then work with NRG California South along with the responsible utility and CPUC to review NRG California

South's proposed cost of service, including any proposed capital investments. Subject to the resource adequacy showings in the third quarter of 2018 the RMR agreement would be executed as necessary and filed with FERC by NRG California South. RMR agreements are limited to a one-year term, but can be extended additional years subject to subsequent annual Board approvals.

In the market notice posting the 2019 local capacity technical study report and in the ISO's submission of the report to the CPUC on May 15, 2018, the ISO expressly noted the need to retain Ellwood and at least one Ormond Beach unit and the expectation of seeking RMR designations at the July Board of Governors meeting.

In both of those communications, the ISO noted that an RMR designation for these units does not bar load-serving entities from entering into bilateral contracts with the Ellwood or Ormond units, in which case the compensation available under the RMR agreement would be adjusted accordingly. The CPUC's proposed 2019 Resource Adequacy decision noted the requirement, and directed SCE to seek negotiating a contract for the resources, if doing so is expected to be less costly than backstop procurement measures.

POSITION OF PARTIES

The ISO reviewed comments received in the course of the 2019 local capacity technical study process, the comments submitted to the CPUC in the 2019 Resource Adequacy proceeding and the steps directed by the CPUC in that proceeding. No comments were received objecting to the ISO's intention seek reliability must-run designations. The CPUC's position was noted above.

CONCLUSION

Management recommends the Board approve the designation of the Ellwood Generating Station and one unit at the Ormond Beach Generating Station as reliability must-run resources.