



Decision on Reliability Services Initiative Phase 2 Proposal

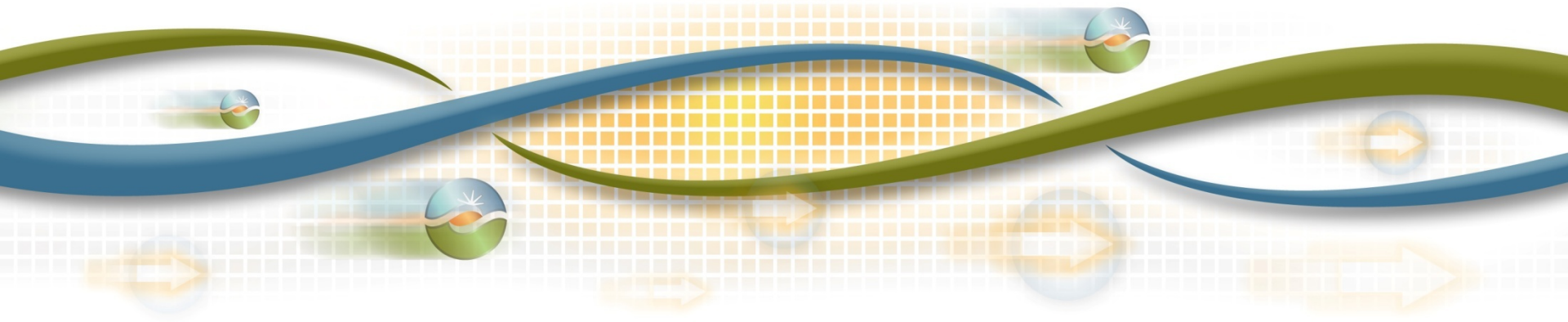
Greg Cook

Director, Market and Infrastructure Policy

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Management proposes two enhancements to Resource Adequacy (RA) rules.

- Relax substitution obligations of system RA capacity that is located in a local capacity area
 - System RA resources in local areas that incur a forced outage can substitute with a resource outside of the local area
 - Templates for RA showings modified to include new fields to specify system or local RA capacity
- Align system, local and flexible RA capacity requirements of small load serving entities
 - exempt from RA requirements if less than one MW for all 12 months
 - RA requirement under one MW for specific month not required to submit showing for specified capacity type and month

Management also identified two process enhancements that do not require Board approval.

- Enhanced process for updating maximum MW values that resources can count for as flexible RA capacity
- New process to notify load serving entities if they have not submitted a timely RA showing to mitigate exposure to financial penalties

The majority of stakeholders support the proposal, but there are some concerns.

- PG&E, SDG&E and CPUC do not support system substitution proposal
 - Breaking out system and local capacity does not recognize that all attributes of physical capability are procured
 - Resources may withhold local capacity, forcing ISO to procure backstop capacity
- Proposal aligns category of capacity procured with substitution requirements.
 - Creates level playing field for system RA resources
 - Provides efficiency benefits. Most local areas have capacity in excess of local requirements.

Management recommends the Board approve the proposal.

- Aligns substitution obligations with capacity procurement
- Aligns system, local and flexible RA capacity requirements of less than one MW