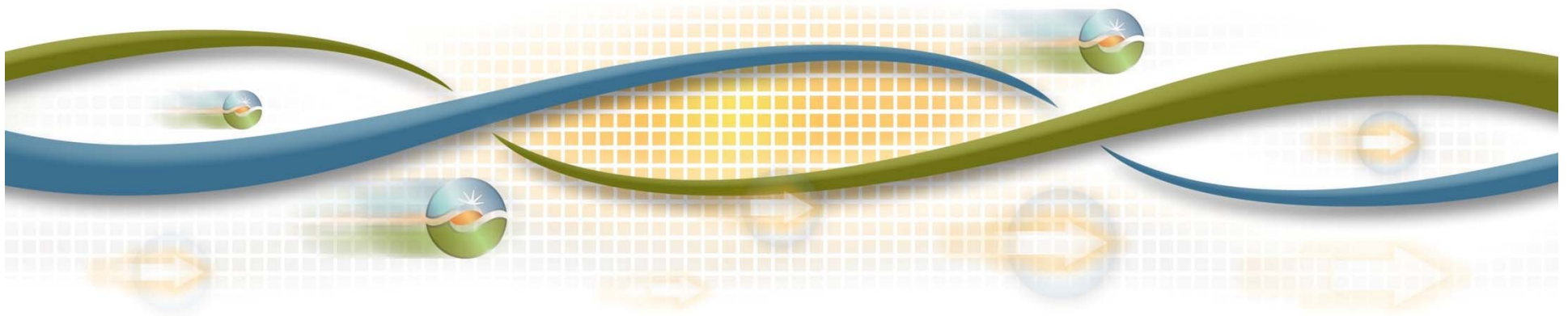





Decision on reliability services proposal phase 1

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The reliability services initiative is a two-phase, multi-year effort to evolve resource adequacy rules to meet the needs of an increasingly dynamic grid.

- Phase 1 focuses on enhancing resource adequacy (RA) rules and processes
 - Enhancements to further integrate preferred resources
 - New availability incentive mechanism
 - Revisions to RA outage rules to streamline process
- Phase 2 includes enhanced flexible RA requirements and flexible RA planned outage rules.

Proposal aligns default eligibility and offer obligation rules for preferred resources with CPUC rules.

- Distributed energy RA resources have the same obligations as transmission connected resources.
- Non-generator resource adequacy resources, such as storage, must adhere to RA offer obligations.
- Proxy demand resources minimum eligibility requirements aligned with CPUC requirements:
 - dispatched at least 24 hours per month, for at least 3 consecutive days, for 4 hours each dispatch.

Availability incentive mechanism assesses availability based on market offers.

- Mechanism penalizes low performance and rewards high performance:
 - Captures flexible resource adequacy economic bidding must-offer obligations.
 - Enhances assessment of availability of use-limited resources.
 - Assesses availability of proxy demand and non-generator resources (storage resources not subject to bid insertion).

Wind, solar, combined heat and power, and grandfathered resources exempt from availability incentive mechanism.



Allows additional flexibility for use-limited resources until opportunity cost methodology is developed.

- Use-limited resources will be able to put in short-term outage to manually manage use-limitations.
 - Once the outage is submitted, the resource is exempt from availability incentive penalties.
- When opportunity cost methodology is implemented, Management proposes to no longer allow use-limited resources to use this outage.
 - Instead use-limited resources should submit bids that reflect opportunity cost of limitation.


Proposal includes enhanced forced and planned outage rules.

- Suppliers that incur a forced outage are provided opportunity to provide substitute capacity to avoid availability penalties.
 - Flexible RA resources must substitute flexible capacity.
 - Forced outages due to high gas prices or gas unavailability subject to availability incentive penalties.
- Changes planned outage replacement capacity obligation from load serving entity to supplier (2017 implementation).
 - simplifies processing and contracting for market participants.
 - additional functionality and flexibility for suppliers to provide and release replacement capacity in real-time.



Stakeholders generally support the proposal, but some concerns remain.

- Some parties object to proposed must-offer obligations for proxy demand response resources.
- Concerns about proposal to cap an LSE's local RA requirement at its system requirement.
- PG&E believes that the incentive mechanism price should be higher to increase substitution by suppliers.
- Two parties oppose flexible availability assessment.
 - *SCE commented that the market should incentivize offers and there is no need for an additional mechanism.*
 - *NRG does not think ISO should require capacity that is both system and flexible to be penalized if capacity self-schedules into market.*



Management recommends the Board approve the reliability services phase 1 proposal.

- Proposal provides significant enhancements to the ISO's resource adequacy rules to help ensure reliable operations:
 - addresses gaps in resource adequacy rules for preferred resources;
 - enhances availability incentive mechanism;
 - includes all resources in availability incentive mechanism; and
 - enhances planned and forced outage rules to reduce complexity.