

Memorandum

To: ISO Board of Governors
From: Anna McKenna, Vice President of Market Design and Analysis
Date: March 15, 2023
Re: **Decision on capacity procurement mechanism enhancements track 1**

This memorandum requires ISO Board of Governors action.

EXECUTIVE SUMMARY

The ISO uses its “backstop” capacity procurement mechanism (CPM) authority when sufficient capacity has not been procured through the resource adequacy program or there is a significant event that requires additional capacity. In recent years, the ISO has faced challenges in finding and procuring capacity through the CPM. For example, when the ISO issued significant event declarations during the summer heatwave events of 2020 and 2021, it struggled to procure sufficient capacity using its significant event CPM authority – in part due to ISO rules that make it difficult for significant event CPM designations to dovetail with other commitments made by resources. For this reason, Management proposes to make four operational improvements to the CPM processes, described below. Two proposed changes to its CPM rules will allow for better alignment with other capacity commitments in order to help the ISO find and procure capacity that is not contracted for during a significant event. In addition, Management proposes two straightforward improvements to the CPM process that will streamline reporting.

1. Allow the ISO to reduce the volume (MW) of significant event CPM designations when the capacity designation period overlaps with an upcoming resource adequacy commitment. This will allow the ISO to access capacity that would otherwise be ineligible for a significant event CPM designation. More specifically, this change allows the ISO to access uncontracted capacity in a specific calendar month, even if that uncontracted volume is not available for a full 30 days, due to a resource adequacy commitment. This ultimately allows the ISO to more easily make significant event CPM designations during tight supply conditions. In addition, allow significant event CPM designated capacity and exceptional dispatch CPM designated capacity to take on new resource adequacy obligations after the CPM designation has been accepted. This will help ensure that CPM designations do not hinder the fulfillment of forward resource adequacy obligations by reducing the pool of potentially available resource adequacy capacity.

2. Allow resources to accept shorter-term significant event CPM designations when the capacity designation period overlaps with an upcoming resource adequacy commitment or is otherwise unavailable to the ISO. In other words, allow resources to accept significant event CPM designations for less than 30 days if they have a conflicting contractual commitment. This flexibility will apply only to capacity that was not offered into the intra-monthly competitive solicitation process. This will allow the ISO to access capacity that would otherwise be inaccessible for a significant event CPM designation. More specifically, this change allows the ISO to take advantage of uncontracted capacity in a specific calendar month, even if that uncontracted volume is not available for a full 30 days. This ultimately allows the ISO to more easily make significant event CPM designations to support reliability.
3. Allow the ISO to meet its CPM designation reporting obligations through its open-access same-time information system (OASIS), which already receives CPM designation information from the ISO's customer interface for resource adequacy (CIRA) application. As part of this enhancement, the ISO needs to revise the tariff-defined parameters included in the report. This will allow for more efficient CPM designation reporting.
4. Extend the CPM designation market notice deadline from two business days to five business days. This will ensure the ISO has sufficient time to collect the information needed for the market notice, undertake the proper reviews, obtain necessary approvals, and issue the market notice in a timely manner.

The proposal described in this memorandum falls under the ISO Board of Governors' approval authority.

Moved, that the ISO Board of Governors approve management's proposal pertaining to capacity procurement mechanism enhancements Track 1 as described in the memorandum dated March 15, 2023; 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 these changes, including any filings that implement the overarching initiative policy but contain discrete revisions to incorporate Commission guidance in any initial ruling on the proposed tariff amendment.

BACKGROUND

The ISO uses its capacity procurement mechanism, often referred to as “backstop” procurement, when sufficient capacity has not been procured through the resource adequacy and when there is a significant event that may impact reliability and require additional capacity. The ISO’s backstop procurement authority also includes reliability must-run (RMR) contracts, which the ISO uses to retain resources that would otherwise retire but the ISO determines are needed to maintain reliable grid operations. The ISO can use its CPM authority to address specific circumstances defined by the following six CPM designation types:

1. Insufficient local capacity area resources in an annual or monthly resource adequacy plan
2. A collective deficiency in local capacity area resources
3. Insufficient resource adequacy resources in a load-serving entity’s annual or monthly resource adequacy plan
4. A CPM significant event
5. A reliability or operational need for an exceptional dispatch CPM
6. A cumulative deficiency in the total flexible resource adequacy capacity included in the annual or monthly flexible resource adequacy capacity plans, or in a flexible capacity category in the monthly flexible resource adequacy capacity plans

When the ISO makes CPM designations, it relies on capacity willingly offered to the ISO by resource owners. To attract such capacity, the ISO conducts annual, monthly and intra-monthly competitive solicitation processes, into which resource owners may offer their capacity to the ISO at prices up to a soft offer cap, currently set at \$6.31/kw-month. Resource owners may also cost justify offers above the soft offer cap.

PROPOSAL

Management proposes the following four operational improvements which comprise the CPM Enhancements Track 1 proposal.

1. Provide flexibility to the ISO to reduce the volume (MW) of significant event CPM designations when the designated capacity is committed and shown to the ISO as resource adequacy capacity.

Management proposes that the ISO be able to make mid-term significant event CPM MW award reductions if the designated capacity already is committed and shown to the ISO as resource adequacy capacity. This flexibility will allow the ISO to make a CPM designation that can volumetrically change and will allow capacity designated for significant events to participate in resource adequacy and RMR contracts and accept monthly CPM designations that may begin during the significant event CPM term.

For example, consider a resource with 100 MW of net qualifying capacity across the year. Next, consider that this particular resource has shown to the ISO 40 MW of

resource adequacy in month A and 70 MW of resource adequacy in month B. Finally, consider that the ISO wants to designate this resource for a 60 MW significant event CPM award beginning in the middle of month A. With the proposed flexibility, the ISO will be able to move forward with such a 60 MW CPM designation, because it will have the authority to decrease the CPM award from 60 MW to 30 MW in month B, corresponding to the increase in the shown resource adequacy from 40 MW to 70 MW. Without the proposed flexibility, the ISO is limited to making a CPM designation of 30 MW. The ISO already has this authority and flexibility for exceptional dispatch CPM awards.

This change will enable the ISO to take greater advantage of uncontracted capacity in a specific calendar month, even if that uncontracted volume is not available for a full 30 days, which is the minimum term of a significant event CPM designation. Without this proposed flexibility, the ISO will remain unable to make significant event CPM designations for capacity it needs immediately if such capacity would become resource adequacy, RMR, or monthly CPM capacity during the term of the CPM designation.

In addition, to help ensure that CPM designations do not hinder the fulfillment of forward resource adequacy obligations by reducing the pool of potentially available resource adequacy capacity, Management proposes to allow significant event CPM designated capacity and exceptional dispatch CPM designated capacity to take on new resource adequacy obligations after the CPM designation has been accepted. New resource adequacy obligations must be shown to the ISO as resource adequacy capacity through the regular resource adequacy showing process, and the ISO will correspondingly reduce the CPM volume to ensure there is no double counting. Non-resource adequacy commitments cannot be made after the ISO makes a CPM designation.

2. Provide flexibility to resources to accept shorter-term significant event CPM designations made to capacity that was not offered into the intra-monthly competitive solicitation process, when the designated capacity has already been committed or is unavailable to the ISO.

Under current CPM rules, the minimum term for a significant event CPM designation is 30 days. Because of this rule, a resource scheduling coordinator may have to reject a mid-month significant event CPM designation because the designated capacity has an existing commitment or is unavailable for the following month. This existing minimum term rule has prevented the ISO from accessing immediately needed and immediately available capacity.

Management proposes to grant resource scheduling coordinators the option to elect a significant event CPM designation for less than 30 days, when such designations are made to capacity not offered into the intra-monthly competitive solicitation process. This new option will allow resource scheduling coordinators with capacity unavailable to the ISO for the following month to accept mid-month shorter-term significant event CPM designations, enabling the ISO to take advantage of uncontracted capacity in a specific calendar month, even if the uncontracted volume is not available for a full 30 days. This change has the benefits of proposal (1) above, but allows for shorter terms rather than

reduced volumes and addresses commitments not currently visible to the ISO, rather than exclusively addressing commitments visible to the ISO at the time of designation.

3. Allow the ISO to meet its CPM designation reporting obligations through OASIS, which already receives CPM designation information from the ISO's CIRA application.

Today, the ISO has a tariff obligation to post a CPM designation report to its website after making CPM designations. Management proposes to allow for more efficient CPM designation reporting by posting CPM designation reports through its open access same-time information system (OASIS), which already receives CPM designation information directly from the ISO's customer interface for resource adequacy (CIRA) application. This change on its own would not require amending the tariff. As part of this streamlining effort, however, the ISO will need to slightly revise certain elements of the report that are stipulated in the existing tariff and will remove the requirement to post a market notice advising stakeholders that the report is ready. Revising the market notice requirement, however, will not impact the obligation to post the report under existing deadlines.

4. Extend the CPM designation market notice deadline from two business days to five business days.

Today, the ISO has a tariff obligation to post market notices within two business days of making a CPM designation. The two business day requirement has posed a challenge for the ISO to complete all required activities in a timely manner. Therefore, Management proposes to extend the CPM designation market notice deadline from two business days to five business days. These additional days will ensure the ISO has sufficient time to collect the information needed for the market notice, undertake the proper reviews, obtain necessary internal approvals, and issue a market notice.

STAKEHOLDER POSITIONS

Stakeholders generally supported the proposal and their feedback was pivotal in refining the CPM enhancements track 1 proposal. In particular, stakeholder feedback prompted adjustments to proposals (1) and (2) described above. Regarding proposal (1), stakeholder feedback led to the proposal allowing significant event CPM designated capacity to take on new resource adequacy obligations after the CPM designation has been accepted. Regarding proposal (2), stakeholder feedback led to modifying the proposal that resources should have the flexibility to accept shorter-term significant event CPM designations to include the clause, "at the discretion of the resource scheduling coordinator" to broaden the proposal. With this adjustment, shorter-term significant event CPM designations can avoid conflicts with capacity that is not visible to the ISO and can avoid conflicts with planned outages. Furthermore, stakeholder questions on the draft final proposal prompted ISO staff to clarify that proposal (2) is limited to significant event CPM designations made to capacity not offered into the intra-monthly competitive solicitation process.

CONCLUSION

Management requests the ISO Board of Governors approve Management's capacity procurement mechanism enhancements track 1 proposal described in this memorandum. This proposal will enable the ISO to take greater advantage of uncontracted capacity in the CPM process and improve CPM process efficiency and accuracy.