



California ISO
Your Link to Power

Draft Final Proposal

**Generated Bids and Outage
Reporting for
Non-Resource Specific
Resource Adequacy Resources**

June 9, 2010

Generated Bids and Outage Reporting for NRS-RA Resources

Prepared for Discussion on a Stakeholder Call – June 16, 2010

1 Introduction

The California Public Utilities Commission (CPUC) administers the Resource Adequacy (RA) program, which requires load-serving entities under its jurisdiction to procure sufficient capacity, termed RA capacity, to be available to the ISO to provide energy and reserves to serve load and maintain reliable operation of the ISO controlled grid. RA resources are required by Section 40.6 of the ISO Tariff to offer their RA capacity into the ISO markets.

If an RA resource fails to submit a bid into the market, the ISO will submit a generated bid for the RA capacity pursuant to ISO Tariff Section 40.6.8.¹ Specifically, for internal generating resources, and for resource-specific system resources, the ISO's Scheduling Infrastructure and Business Rules (SIBR) software will insert a generated bid for the RA capacity up to the MW RA capacity volume specified in the supplier's supply plan. Currently, the ISO is not inserting bids for non-resource-specific system resources with RA contracts (NRS-RA resources). For the November 2009 RA compliance month, there were 63 NRS-RA resources with a combined contracted resource adequacy capacity of 5,215 MWh.

Through this stakeholder effort, the ISO has worked with market participants to address the issues associated with the implementing generated bids for NRS-RA resources.² The first issue is the question of what bid price to insert for automatically generated bids for these resources. Since they are not Resource-Specific System Resources as defined in the Tariff, there is no obvious cost basis for the price component of the default bid for NRS-RA resources.³

Second is the issue of resource availability and availability reporting. For internal RA resources, including resource-specific system resources with RA contracts, suppliers are required to submit outage notices through the Scheduling and Logging for the ISO of California (SLIC) software.

¹ According to Section 40.6.8 of the ISO Tariff, "the CAISO will determine if dispatchable Resource Adequacy Capacity from Resource Adequacy Resources has not been reflected in a Bid and will insert a generated Bid into the CAISO Day-Ahead Market for any dispatchable Resource Adequacy Capacity that is not reflected in a Bid into the CAISO Day-Ahead Market and for which the CAISO has not received notification of an outage."

² Paragraph 133 of FERC Docket No. ER09-1064-000 *Order Accepting in Part and Rejecting in Part Tariff Revisions Subject to Modification*, Issued June 26, 2009.

³ A non-resource specific system resource that does in fact have a designated generating resource that supplies the RA capacity has the option to become a resource-specific system resource.

Analysis of these two issues relative to NRS-RA resources led to the need to address two additional questions. Accordingly, this Stakeholder process was expanded to address the question of how the ISO can most fairly and accurately consider “subset-of-hours” RA contracts, as well as the question of how best to apply the Standard Capacity Product (SCP) to these resources.

In this *Draft Final Proposal*, the ISO is putting forward a policy design for procedures to insert generated bids for NRS-RA resources that fail to bid into the day-ahead market, and for unavailability reporting for those resources. Further, the ISO is providing clarification on the implications for NRS-RA resources under SCP, and a policy determination with respect to the accommodation of “subset-of-hours” Resource Adequacy contracts.

2 Process and Timetable

The table below summarizes the steps in the process through which the ISO and stakeholders collaboratively arrived at the policy described in this *Draft Final Proposal*

December 18, 2009	<i>Issue Paper</i> Posted
December 30	Stakeholder conference call
January 8, 2010	Stakeholder comments due *
January 19	<i>Straw Proposal</i> Posted
January 27	Stakeholder conference call
February 3	Stakeholder comments due *
April 5	<i>Revised Straw Proposal</i> Posted
April 28	<i>Addendum</i> on Subset-of-Hours posted
May 10	Stakeholder conference call
May 20	Stakeholder comments due *
June 9	<i>Draft Final Proposal</i> posted
June 16	Stakeholder conference call
June 25	Stakeholder comments due *
July 22-23	Presentation to ISO Board of Governors

* Please e-mail comments to Gillian Biedler at gbiedler@caiso.com

3 Key Criteria for Evaluating Potential Solutions

This section provides some key evaluation criteria the ISO believes are important. Stakeholders are invited to identify other criteria that should be considered in assessing potential solutions.

- The policy that is developed should increase the ISO’s ability to reliably operate the grid given its lack of visibility into the generation source(s) behind an NRS-RA resource.
- The policy that is developed should provide consistent rules and effective incentives for suppliers of Resource Adequacy capacity with must-offer obligations to fully comply with Section 40 of the ISO Tariff.
- Policy and design options should be evaluated for implementation feasibility and costs for both the ISO stakeholder and for the ISO.

4 Description of the Issues

Resource Adequacy resources must submit Economic Bids or Self-Schedules for their Resource Adequacy Capacity into the IFM and RUC as required by Tariff Section 40.6.1(1). Furthermore, Tariff Section 40.6.2 states that:

Resource Adequacy Resources that have been committed by the CAISO in the Day-Ahead Market or the RUC for part of their Resource Adequacy Capacity or have submitted a Self-Schedule for part of their Resource Adequacy Capacity must remain available to the CAISO through Real-Time, including capacity reflected in the Day-Ahead Schedule and any remaining capacity, for the scheduled and non-scheduled portions of their Resource Adequacy Capacity.

Finally, “Resource Adequacy Resources must participate in the RUC to the extent that the resource has available Resource Adequacy Capacity in the IFM,” as required by Tariff Section 40.6.1(5).⁴

Currently, the ISO is not calculating or inserting generated bids on behalf of NRS-RA resources that fail to bid into the Day Ahead market. In its June 26, 2009 Order on the Resource Adequacy SCP filing, the Federal Energy Regulatory Commission (Commission) stated that “the CAISO should be submitting generated bids for non-bidding resource adequacy capacity at the interties if it is not already doing so, however, a tariff change is not required to make this clear. To the extent that the CAISO has not been submitting such generated bids, the Commission directs the CAISO to do so as soon as possible.”⁵

Non-resource specific system resources that supply RA capacity pose four important policy questions that must be resolved in implementing procedures for inserting generated bids for these resources when they fail to offer their capacity into the day-ahead market. These questions concern: (1) the bid price associated with a generated bid, (2) the rules and procedures regarding availability reporting, (3) considerations with respect to SCP, and (4) adaptations required for subset-of-hours RA contracts.

⁴ Additional provisions in ISO Tariff Section 40.6.5 are applicable to NRS-RA resources.

⁵ Please see footnote 2 above for citation.

Determination of a Generated Bid

ISO Tariff Section 40.6.8 states that the ISO will insert a generated bid on behalf of Resource Adequacy resources with must-offer obligations that fail to bid into the market.⁶ Furthermore, if such a resource does not bid the full RA MW quantity, the ISO is authorized to extend the resource's highest bid segment out to the MW quantity specified by the Scheduling Coordinator in the resource's supply plan.

In the event that a Scheduling Coordinator for a resource-specific RA resource with a must-offer obligation does not offer the resource into the market, a generated bid is calculated based on resource-specific operating and fuel costs of the generating unit and supplied to the market optimization on the SC's behalf. Since NRS-RA resources are not resource-specific system resources within the Tariff definition, basing their generated cost calculation methodology on resource-specific cost-based factors is not feasible. In short, there is no cost basis for these firm energy imports. The ISO has looked to the non-cost based methodologies used for calculating default energy bids (DEB) for options that could be extended to generated bids for NRS-RA resources.

Reporting of Unavailability

In the event that an internal RA resource or a resource-specific system resource is not available, it must submit a SLIC outage ticket. The receipt of a SLIC outage ticket informs the ISO that the RA capacity will not be available, so that when the capacity is not offered into the ISO markets, the ISO market software will not use generated bids to implement the must-offer obligation for the capacity.⁷ Although NRS-RA resources are not resource-specific, as per the ISO Tariff definition, in practice they may be tied to a particular generating unit or group of units, and in some cases are specific to only a portion of a resource, and this has led FERC to determine that a 100% availability requirement is unjust for NRS-RA resources. Thus, the ISO will accept explanations of generation or transmission circumstances leading to an NRS-RA resource being unavailable to meet its RA must-offer obligation. Participants can submit a notice of that unavailability to the ISO *via* SLIC.

Subset-of-Hours RA Contracts

As described in the *Addendum*, Market Participants procure power and energy through many transaction types, some of which are contracts for supply obligations that are seven days-a-week, 24 hours-a-day (7x24) or for shorter periods of time. Contracts less than 7x24 are

⁶ Note that, unlike resource-specific resources, non-resource specific resources are not eligible to seek use-limited resource (ULR) status. Since NRS-RA resources are by definition not limited to a single generating unit, it would be inconsistent to allow such resources to seek use-limited status due to unit-specific characteristics. Resources that are in fact use-limited due to unit-specific characteristics should seek to become resource-specific system resources (RSSR) so that they may in turn apply for use-limited status.

⁷ This requirement is stated in ISO Tariff Section 40.6.8.

referred to as “subset-of-hours” contracts or resources and include contracts like a 6x16, 5x8, or 5x4. Per Section 40.8 of the ISO Tariff, the CPUC or local regulatory authorities (LRAs) may determine that certain subset of hours resources count for purposes of meeting LSE RA requirements. Per Sections 40.6.1 and 40.6.2,⁸ NRS-RA resources have an obligation to bid in the day-ahead market but not the real-time market. The ISO’s current policy is to insert generated bids on behalf of all RA resources with offer obligations as if they were contracted to provide RA capacity 7x24. Given that not all RA capacity is 7x24, and that local reliability authorities (LRA) already monitor and approve the procurement of such capacity, the ISO has sought to develop a new policy with respect to the contractual arrangements of RA resources.

Considerations for Standard Capacity Product

Currently, SCP availability of RA resources that are internal to the ISO and resource-specific RA system resources are calculated based on their level of forced outages and temperature related ambient derates in a given month.⁹ Unlike these resources, currently, the availability of NRS-RA resources cannot be measured based on outage information and instead is measured by their bidding behavior. That is, the extent to which an NRS-RA resource bids its RA capacity into the market indicates its availability.¹⁰ Once the ISO generates and inserts bids on behalf of NRS-RA resources that fail to bid into the market, this measure of availability will no longer be meaningful and another approach must be developed. Given that new availability reporting rules for these types of resources will be developed, the ISO is proposing new rules for measuring SCP availability for NRS RA resources as part of this proposal. Note that this change to SCP for NRS-RA will not impact other SCP provisions, for instance the NRS-RA resources’ eligibility to use unit substitution.

5 Stakeholder Feedback

On April 5, 2010 the ISO posted its *Revised Straw Proposal* based on stakeholder feedback received on the previously posted Straw Proposal.¹¹ On April 28, 2010, the ISO posted an *Addendum* to that *Revised Straw Proposal* which proposed a policy to accommodate subset-of-

⁸ The bidding requirements for NRS-RA resources are also described in the BPM for Reliability Requirements, Section 6.1, Summary of Bidding Requirements for Resources Providing RA Capacity table, p.36-37. Note that the BPM reference to 40.8.1.12.2, only applies where the CPUC or Local Regulatory Authority has not established the criteria described in 40.8.1. See also 40.6.5.2.

⁹ ISO Tariff Section 40.9.4.2 states that “A Resource Adequacy Resource will be determined to be less than one hundred percent (100%) available in a given month if it has any Forced Outages, non-ambient de-rates, or temperature-related ambient de-rates that impact the availability of its designated Resource Adequacy Capacity during the Availability Assessment Hours of that month.”

¹⁰ ISO Tariff Section 40.9.7.2 describes the current availability calculation for NRS-RA resources.

¹¹ All documents and comments related to these proposals can be found on the ISO website at <http://caiso.com/2488/2488b47711c30.html>

hours resource adequacy contracts. Summarized briefly below is the feedback on the *Revised Straw Proposal* and the *Addendum*.

Generated Bids

Stakeholders continue to support the LMP-based bid calculation option and the negotiated bid option. In response to stakeholder feedback, the ISO has also included a modified price-taker bid option in the proposal.

Unavailability Reporting

The ISO received mixed Stakeholder support of the proposal on the circumstances under which an NRS-RA resource can declare its unavailability. While some Stakeholders agreed with the ISO's initial proposal that only extraordinary transmission circumstances would be a deterrent to bidding in the full RA capacity, most agree with the revised policy that unavailability for these resources should be more broadly defined. Ultimately, a successful implementation of unavailability reporting for NRS-RA resources is one that facilitates accurate self-reporting.

Grandfathering

Currently there is a SCP tariff provision¹² that, given certain conditions, RA capacity under a bi-lateral contract signed prior to June 28, 2009 may be exempted the SCP availability standards, charges and payments for the initial term of the contract. CDWR-SWP requested that these grandfathering provisions be extended to non-resource specific system resources as a part of this initiative.

Accommodation of Subset-of-Hours Contracts

On May 21, 2010, three sets of comments were submitted on the *Addendum* by CDWR-SWP, Powerex, and Six Cities. SWP stated that it supports [the] ISO's parallel consideration of 'subset-of-hours' constraints for the CAISO's internal and resource specific system resources." Powerex stated that it "supports the CAISO's proposal to recognize RA contracts with different availability hours and to change the availability assessment to only include hours where the RA resource has a contractual obligation." However, Six Cities "urge[d] the ISO to supplement its Sub-Set of Hours proposal to accommodate ... resources" in the two ways described below. Allow the SC to:

1. **Select the Block that Most Nearly Fits:** "Where the contract terms for the NRS-RA resource are close to but do not precisely match a standard block defined by the ISO, allow the SC for the resource to select the standard block that most nearly fits the contractual terms applicable to the resource and permit a partial exemption from the bidding requirement to the extent of the inconsistency in terms; and
2. **Treat Similar to a ULR:** "Under ... [the] circumstances [described below], the SC should be permitted to specify a daily energy limit, and the ISO should exempt such

¹² CDWR refers to Tariff section 40.9.2 (2)

a resource from generated bids, similar to the treatment of Use-Limited Resources within the ISO BAA. [Specifically, where] “some contract terms for NRS-RA resources do not provide for availability on a regularized basis or provide for availability on terms that do not match any of the standard blocks. For example, where:

- a. “some NRS-RA contract terms are tied to availability of a specific resource or resource portfolio, but the resource(s) would not satisfy all requirements for Resource-Specific System Resources (for example, direct telemetry requirements), or
- b. “the availability terms for the resource do not match any of the standard blocks (e.g., 5x6 for HE12-17).”

6 Draft Final Proposal for Addressing the Issues

6.1 Generated Bid Calculation Methodology

For an NRS-RA resource that submits a bid into the IFM/RUC but not to the full MW capacity specified in the resource’s Supply Plan submitted by its Scheduling Coordinator, the ISO recommended in the *Issue Paper* that the last segment of the resource’s energy bid curve be extended out to the full RA MWh quantity. This is consistent with the practice for resource-specific RA resources with must-offer obligations. This met with broad support from Stakeholders, and the ISO maintains this recommendation in this final policy paper.

The ISO proposes to offer three options for generated bids to be inserted on behalf of NRS-RA resources that fail to bid into the IFM. The first is a price-taker bid. The second option is an LMP-based calculation analogous to that used for default energy bids as described in Tariff Section 39.7.1.2.¹³ A third option is to enable an NRS-RA resource to submit for negotiation a bid to be used on its behalf in the event that it doesn’t offer its RA capacity into the market as required. The negotiated option for NRS-RA resource generated bids would parallel that for calculating Default Energy Bids for, which is described in ISO Tariff Section 39.7.1.3.

The ISO proposes that NRS-RA resources be able to choose between the LMP-based bid option, the negotiated bid option, and the price-taker option. If the LMP-based bid option is elected, the resource must either submit a negotiated bid value or elect the price-taker bid to be used as a “back-up” in the event that the feasibility test fails for the LMP-based bid option due to lack of sufficient data. Stakeholders expressed some concerns about using 90 days of data to calculate the LMP-based option, stating that energy prices vary greatly over that period, and that the LMP-based generated bid can therefore be out of line with contemporary market conditions. Allowing for a choice between the other two options

¹³ Two examples illustrating how the LMP-based approach would work are provided in Appendix A of this Revised Straw Proposal.

proposed here will provide an alternative to the LMP-based bid option for market participants unwilling to accept this risk.

Although the price-taker bid option was originally conceived of as a \$0/MWh bid, one stakeholder pointed out that a bid approximating the grid management charge (GMC) that would be assessed if the bid cleared would be a more equitable price-taker bid design. The ISO agrees that this is reasonable. At this time, there is a stakeholder process underway in which the current structure of the ISO GMC charges is being reevaluated in light of the new market design. As a result, the structure of the GMC charges may well change. While the details of the methodology for determining the *per*-MWh amount of the GMC hinge upon the outcome of that separate initiative, the principle proposed here will still apply. Specifically, the ISO will utilize a *per*-MWh value – possibly estimated – for GMC based upon gross MWh scheduled.

6.2 Outage Policies for NRS-RA Resources

Non-resource specific system resources that supply RA capacity have, in theory, the flexibility to provide that capacity from a variety of sources, and would therefore not experience outages. In practice, however, there are varied circumstances that might lead to unavailability or partial availability of these resources. Examples of these circumstances are provided in comments to FERC on the ISO’s filing on Standard Capacity Product (SCP).¹⁴ In response to these comments, FERC determined that NRS-RA resources “may be subject to transmission outages at the interties, or constrained generation and transmission resources beyond such ties which could prevent imports from meeting the 100 percent [SCP] availability standard.”¹⁵ Thus for the purposes of Resource Adequacy and SCP, it is necessary to enable NRS-RA resources a mechanism by which they can inform the ISO of the resource’s unavailability.

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NRS-RA resources that are unavailable need a mechanism by which to inform the ISO of that unavailability. The ISO accordingly proposes that all NRS-RA resources be required to submit notices of unavailability through SLIC or an outage management system that replaces SLIC in the future.

As noted in the *Issue Paper* on this initiative, the outage reporting requirements for internal generating units can be adapted for outages that impact the availability of system resources. Internal generating resources and resource-specific system resources are required to report forced outages within 60 minutes as well as provide a follow-up explanation of the outage within two working days. ISO Tariff Section 9.3.10.6 summarizes the requirement for this follow-up explanation as: “the Operator shall provide to the CAISO an explanation of the forced outage and the estimated return time” within a specific timeframe as well as an

¹⁴ FERC Docket No. ER09-1064-000

¹⁵ FERC Docket No. ER09-1064-000, Paragraph 27

explanation that includes “a description of the equipment failure or cause and a description of all remedial actions taken by the Operator.”

Thus, in the event of an outage of the generating unit or generating units behind a NRS-RA resource, or in the event of a transmission outage that interfered with transmission to the CAISO, the SC for the NRS-RA resource would submit an outage ticket to prevent the CAISO from generating bids for the capacity affected by the outage. In addition, to ensure that the SC explicitly documents the reason that the RA capacity is not available, we propose that the requirements of CAISO Tariff Section 9.3.10.6 be amended to extend to NRS-RA resources. For example, the Tariff language could be adapted as follows:

- The Scheduling Coordinator should provide a description of the outage affecting the generating unit or units that were intended to be the source of energy for the NRS-RA and provide an estimated time that the generating unit or units will become available again; and
- The Scheduling Coordinator should provide a description of any transmission curtailments or transmission outages external to the ISO with associated BAA that have led to the resource’s unavailability.
- The Scheduling Coordinator should provide a description of the impact to their ability to provide RA capacity due to transmission curtailments or transmission outages at an ISO Inter-tie.

In addition, the ISO proposes that, just as for resource-specific system resources, NRS-RA resources’ Scheduling Coordinators be required to provide the ISO with additional information as requested. As it does for resource-specific system resources, the ISO would have the authority to submit a report to the Commission regarding circumstances in which it determines that a forced outage may have been the result of gaming or other “questionable behavior” by the Scheduling Coordinator.¹⁶

In order for the supplier to report an NRS-RA resource’s unavailability to the ISO, the ISO will add the resource identification numbers for those resources to the SLIC system.

An NRS-RA resource has an obligation to offer its RA capacity into the day-ahead market. Under this proposal, if the resource submits notice of its unavailability through the SLIC mechanism in advance of the close of the day-ahead market, then a generated bid will not be inserted for the resource in the IFM or RUC for the outage hours of that Trade Date. The unavailability will be considered in the calculation of the SCP availability metric. If an NRS-RA resource receives a schedule out of the day-ahead market, and then experiences a change in circumstances that leads to its unavailability after the close of the day-ahead market, the SLIC system will not inform the market optimization of that unavailability. As a result, submitting an outage after the close of the IFM does not eliminate exposure to price risk between the Day Ahead and Real Time prices.

¹⁶ These requirements parallel those for resource-specific resources as laid out in ISO Tariff Section 9.3.10.6.

The CAISO will not be evaluating the reported outage as a request for an outage and therefore will not be providing approval for the outage. Additionally, the reported outage will not follow the typical outage lifecycle that would require a final contact with the CAISO to begin and end the outage; it will serve only as a notification of outage that CAISO would integrate into its operational plan for applicable timeframe.

6.3 Considerations for Standard Capacity Product

Under the effective Tariff provisions for SCP, the availability of an NRS-RA resource is measured by the amount of the RA capacity for which the resource offers bids into the ISO markets, in accordance with the must-offer obligations specified in Section 40 of the ISO Tariff, in each of the designated SCP availability assessment hours. Upon implementation of rules and procedures for inserting generated bids for NRS-RA resources when they fail to submit bids and for enabling such resources to utilize the ISO's outage management system to report outages and de-rates to the ISO, the ISO must revise the approach for calculating monthly availability under the SCP for these resources to be consistent with the approach applied to internal RA resources.

Draft Final Proposal – Standard Capacity Product

The ISO proposes (1) to modify the current availability standard and calculation of availability for NRS-RA resources to be consistent with the approach used for other RA resources under SCP, and (2) to clarify the Availability Assessment provisions in the Tariff.

First, with regard to availability standards and calculations, the ISO is recommending that the monthly availability of NRS-RA resources be the sum of the hourly available RA capacity of the resource in the availability assessment hours of the month divided by the sum of the hourly RA capacity for those hours. This is the same calculation used for internal generators with RA obligations. A resource will be determined to be less than 100% available in a given month if it has reported outages or derates that impact the availability of the resource during the availability assessment hours of that month. The ISO proposes to apply the same availability standard to NRS-RA resources as is applied to internal RA capacity until such time that sufficient data are available to tailor an availability standard specifically for NRS-RA resources.¹⁷

Currently, the availability charges and payments for NRS-RA resources are maintained separately from those of other RA resources because of the difference in assessing availability.¹⁸ The ISO proposes to maintain separate “buckets” of SCP revenues for internal

¹⁷ FERC Docket No ER09-1064-003, Compliance Filing, Section 4A

¹⁸ The accounting for availability charges and payments is described in ISO Tariff Section 40.9.7 “This category will utilize the same Availability Standard determined for other Resource Adequacy Resource in accordance with Section 40.9.4.1, but will have its own availability

generators and NRS-RA resources. This proposal is made to avoid inequitable situations in which the more flexible NRS-RA resources which likely have a greater rate of availability, could earn SCP availability payments out of a bucket shared with inherently less flexible resources.

It is also important to note that unit substitution provisions for system (non-local) RA capacity apply to NRS-RA resources. Per the Tariff,¹⁹ in the event that these types of resources have circumstances that would affect their availability, the Scheduling Coordinator may request to substitute a non-RA resource that is internal to the ISO BAA to be used in place of the original resource. This request must occur prior to the close of the IFM and will be approved by the ISO given that the substitute resource provides the same MW quantity as the original RA resource. These provisions are in effect today and will not be modified through this proposal.

Second, with regard to SCP availability assessments, during the May 10, 2010 presentation, the ISO stated that any hours for which resources are not contracted for RA will not be included in the availability calculation. Availability will be measured against what is set forth in the respective Supply Plans. For example, there are five SCP assessment hours per day. During the weekday, a 5x4 contract only has four hours per day. An RA supplier will not be considered unavailable for the fifth hour during which it has no contractual obligation. Slide 17 of the stakeholder May 10, 2010 conference call presentation²⁰ makes the following two points:

- Subset-of-hours RA resources should not be considered unavailable in SCP availability assessments for hours in which they are not contractually obligated to provide RA capacity; and
- Only contracted hours should be used to calculate the SCP availability. SCP availability assessment hours for which RA resources with subset-of-hours contracts do not have a contractual obligation to provide RA should not be factored into the subsequent year's SCP availability standard as "non-performance" hours.

In short, the ISO proposes that the SCP availability assessment be relative to the contents of the Supply Plan. RA suppliers with subset-of-hours contracts will not be considered unavailable during SCP availability assessment hours to the extent that those hours are outside their contractual obligation and are also excluded from the Supply Plan.

This NRS-RA proposal, outside of the revisions mentioned above, maintains the same market design set forth in the SCP tariff amendment approved by FERC. Non-resource

calculations, as well as a separate account for settling Non-Availability Charges and Availability Incentive Payments.”

¹⁹ Unit substitution for system RA capacity is described in Tariff Section 40.9.4.2.1. The BPM for reliability requirements describes this practice in Section 8.7.3 and the actual process for unit substitution is described in Operating Procedure G-204.

²⁰ The May 10, 2010 presentation is located at <http://www.caiso.com/278e/278ec4db5f40.pdf>.

specific system resources are not included in the grandfathering provisions of tariff section 40.9.2 (2) that is currently in effect. This section specifies that capacity must be under a “resource specific power supply contract” to be eligible for grandfathering. There is nothing in the current proposal that modifies this policy. The current NRS-RA proposal simply changes the methodology for determining unavailability for NRS-RA resources; it is not adding a new feature to SCP.

6.4 Considerations for Subset-of-Hours RA Contracts

As previously noted, the ISO’s current policy is to insert generated bids on behalf of all non-bidding RA resources with an offer obligation. In the *Addendum*, the ISO outlined policies and procedures to accommodate subset-of-hours resources in ISO systems using several standard contract blocks. However, based on comments received, the subset of hours straw proposal in its present form would not represent all RA resources adequately enough in ISO markets. To address this, Six Cities proposed two modifications to the proposal that would allow it to (1) cover a broader range of resources by expanding the representation of the standard blocks to include contracts that “most nearly fit” a given standard block, and/or to (2) exempt resources from generated bids that are allowed to specify a daily energy limit, similar to that for use-limited resources.

With regard to the Six Cities closest block proposal, the refinement process would necessarily involve collecting more and more data about all RA contracts and refining the “most nearly fits” criterion. While this approach could very well result in an agreeable solution, much time and effort would be necessary to develop such an approximation. Instead, the ISO presents a revised subset-of-hours policy which will provide for accurate accounting of all contracted RA hours.

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The goal of the revised subset of hours straw proposal is to describe and eventually achieve a detailed representation of all RA contracts and resources in ISO systems that will allow for an accurate generated bids process, which will lead to a more accurate accounting of all RA resources. Accordingly, the ISO proposes to insert bids (if the SC for the RA resource fails to do so) for the hours specified in the RA contractual arrangement. For example, if the contractual arrangement is a 6x16 RA contract (six days per week and 16 hours per day) and the SC for the RA resource fails to insert bids for all 6x16 hours, the ISO would generate bids such that the entire 6x16 period is covered. On the other hand, if the SC for the RA resource fails to insert bids for some number of hours covered by the 6x16 contract, the ISO would generate bids for those hours. This treatment would be applied to all RA resources with subset-of-hours contractual arrangements – not simply those that match the standard block contract hours.

ISO systems will be designed to accept a detailed representation of LSE contracts and resources, even those for subset-of-hours. This information could be provided by suppliers

to the ISO in the Supply Plans. However, contrary to the proposal in the *Addendum* in which relatively minor modifications to the Supply Plan template were required, the *Revised Straw Proposal* will likely require a detailed RA Supplier user interface, due to the larger data volume and detail needed to accurately represent each contract/resource during a given month. The ISO will determine the necessary software requirements through an implementation analysis following the completion of the policy phase of this initiative.

Unchanged from the *Addendum*, RA Suppliers will be required to provide actual contract information in support of data entered as described:

Under this proposal, RA resources will be required to provide information about their subset-of-hours arrangements to the ISO. For a supplier of RA capacity to request subset-of-hours treatment in the ISO markets, the ISO will consider adopting requirements analogous to what the ISO used for establishing Existing Transmission Contract rights through the Transmission Rights and Transmission Curtailment instructions, as well as for eligibility for Congestion Revenue Rights allocations by external entities based on their energy contracts. For example, the supplier will need to provide a sworn statement by an appropriate executive of the company that attests to the RA contract provisions specifying subset-of-hours treatment, and include this with its supply plan. The sworn statement will be required to be provided to the ISO no less than once each year, and in each instance where a contractual arrangement changes. The ISO would also have the right to see the actual contract if needed. The ISO will cross check this information against the RA showing submitted by the LSE, and any discrepancy could trigger review of the contract. The ISO will report any discrepancies to the local regulatory authority.

To the extent the revised subset-of-hours straw proposal is implemented, there will be a much more granular representation of resources within ISO systems, but the ISO plans to carefully monitor its effect. For the CPUC jurisdictional entities, as long as the MCC buckets remain in place as currently defined and are enforced through monthly validation, the ISO does not anticipate reliability issues associated with the implementation of this *Draft Final Proposal*. However, the ISO continues to believe that it is prudent to monitor the impact this policy would have, including any unintended consequences, which could include any significant change in LSE supply plan portfolio content. If the ISO implements the new functionality for all RA resources with subset-of-hours arrangements, the ISO will need to monitor (1) the amount of RA capacity that has been converted from a 7x24 arrangement to something less than 7x24, (2) the total amount of RA capacity that is subject to inserted bids, (3) the degree to which market participants are compliant in submitting bids for RA resources, and (4) the degree to which market participants are compliant in submitting bids for use-limited resources for which the ISO does not insert bids. If reliability issues arise, the ISO may need to take steps to revise its policies related to this issue.

7 Conclusion

The ISO appreciates stakeholder comments and discussion on the issues raised within this paper. The ISO will hold a conference call on June 16, 2010 to discuss this final policy paper on this initiative. After that discussion, written comments will be requested by June 25, 2010. In the interim, Stakeholder comments, questions and concerns may be directed to Gillian Biedler at gbiedler@caiso.com, or to (916) 608-7203.