Capacity Procurement Mechanism Replacement

Draft final Settlement Document for ISO Board of Governors

December 15, 2014

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1. Summary term sheet

This section summarizes the key aspects of the settlement agreement. These terms are discussed in detail in the following sections of the Draft Settlement Document.

1.1. Competitive solicitation process

The California Independent System Operator (ISO) will procure and price backstop capacity designated under the Capacity Procurement Mechanism (CPM) through a competitive solicitation process (CSP). This process will be set up to run annually, monthly, and intra-monthly to cover all potential CPM designations with the exception of a risk-of-retirement designation. A risk-of-retirement designation will not go through a CSP and instead be designated according to current rules in tariff section 43.2.6 and submit an offer price in addition to the items in 43.2.6 (5).

1.1.1. Offer rules

Suppliers may offer into the CSPs any non-RA capacity according to a defined set of rules that outline the offer format, product definition, and other terms and conditions. Suppliers must submit offered non-RA capacity at a single price for each monthly term. Suppliers may vary both price and quantity between the different CSPs.

1.1.2. Soft offer cap price

The initial soft offer cap will be set at the California Energy Commission (CEC) estimated levelized going-forward fixed costs for a mid-cost, 550 MW combined cycle with duct firing resource in 2013 plus 20%.[1] This equals $75.68/kW- year ($6.31/kW-month) using the CEC draft report estimates for insurance, ad valorum, and fixed operation and maintenance costs. This price will be used as a soft offer cap price for all capacity types (system, local, flexible) and all competitive solicitation processes (annual, monthly, intra-monthly).

1.1.3. Methodology to determine updates to soft offer cap price

Frequency and update methodology

The soft offer cap price will be updated using the CEC's updated final results for the levelized going-forward fixed costs of a mid-cost, 550 MW combined cycle with duct firing, or most similar resource assessed by the CEC, plus 20% of the going-forward fixed costs.

The ISO will open a stakeholder process not less than every four years and concurrent with the CEC posting of the draft results for the levelized going-forward fixed costs of a mid-cost, 550 MW combined cycle with duct firing or similar resource. The stakeholder process would not automatically reassess the use of a mid-cost, combined cycle unit as the reference resource or the 20% adder, but no party is precluded under the settlement from requesting that the

[1] This is estimated in the May 2014 Estimated Cost of New Renewable and Fossil Generation in California Draft Staff Report

stakeholder process allow for consideration of changes to the reference resource, the adder, or the components of the going forward fixed cost calculation for the reference resource. The ISO will complete this initiative within 6 months of the CEC draft cost publication.

Following completion of the stakeholder process and subject to any necessary action(s) by the ISO Board of Governors the ISO would make a section 205 filing to change the soft offer cap. All parties reserve all rights with respect to such filing; provided that any party that wishes to challenge the use of a mid-cost, 550 MW combined cycle unit with duct firing as the reference resource (or the most similar resource, if the CEC study no longer evaluates such combined cycle resource) or the 20 percent adder shall bear the burden of showing that the use of such reference resource or use of a 20 percent adder is unjust, unreasonable, or unduly discriminatory or preferential.

1.1.4. ISO Cost justification above the soft offer cap

The ISO will allow suppliers to go to FERC to cost-justify offers above the soft offer cap.

Timing of FERC request

A supplier may go to FERC to cost-justify a price higher than the soft offer cap prior to offering the resource into the competitive solicitation process or after receiving a CPM designation. A FERC approved rate will be accepted for the remainder of the calendar year and for the following two years. A resource will have 30 days to file a cost justification for an offer submitted above the soft offer cap price at FERC after being designated under the CPM.

Payments made based on cost-justification

The FERC approved cost of service rate will be paid in the form of $/kW- year divided by 12 to get a $/kW – month payment. The rate shall be determined in accordance with the methodology in Schedule F to the RMR Agreement. The ISO will make this payment for the term of the designation. The ISO will not deduct bilateral or energy revenues from this value. A resource cannot file at FERC to recover costs that are higher than its bid into the CSP that resulted in a designation.

1.1.5. Retain supplemental revenues options

The current supplemental revenue option allows resources to receive unmitigated energy market revenues in lieu of an exceptional dispatch CPM payment. A resource that turns down a CPM designation will be paid in accordance with current supplemental revenues policy. The payment will be capped over a calendar month at the soft offer cap price. After the cap is reached, the resource will be paid consistent with RA resources that receive an exceptional dispatch. A resource that turns down the CPM will not be subject to any additional RA rules, including RUC participation, must-offer obligations, and the availability incentive mechanism.

1.2. Availability incentive mechanism price for CPM resources

Resources designated under the CPM will be subject to all RA provisions, except the resource will have an individual availability incentive mechanism price. This price will be the CPM price that the resource was paid by the ISO ($/kW-month) as a result of the competitive solicitation process. Availability incentive mechanism payments to a resource designated under the CPM will be capped at the general RA availability incentive mechanism rate.

1.3. Publication of competitive solicitation inputs and results (transparency)

The ISO will publish all finalized offers into the competitive solicitation processes on a rolling five-quarter delay. Offers will be described by generation technology type, MW quantity, price, RA capability (system, flexible, local) and competitive solicitation process offered. The offers will be aggregated in the event less than three resources are in a single generation technology type.

In the event of a CPM designation, in addition to the current market notice information, the ISO will also publish the accepted rate. This will be done consistent with current CPM market notice rules (tariff section 43.6.1).

1.4. Exceptional dispatch of partial-RA resources

The ISO will conduct a reliability assessment for all partial-RA resources that received an exceptional dispatch. This assessment will follow the same process as the post day-ahead reliability assessment for non-RA resources that receive a day-ahead exceptional dispatch.

1.5. Allocation of Grid Management charges

The costs of running the competitive solicitation process will not be included as a separate line item in the Grid Management Charge.

1.6. Monitoring of LSE reliance on CPM

The ISO will monitor the use of CPM to ensure that LSEs are not relying on the CPM as a means of capacity procurement to meet RA obligations. If either of the two following conditions are met, then the ISO will open a stakeholder initiative to explore the use of the CPM as a potential primary use of capacity procurement:

1) with the second occurrence of use of CPM by the same LSE for either an annual or monthly LSE deficiency within a rolling 24 month period, or

2) with the first occurrence of use of CPM by an LSE for either an annual or monthly LSE deficiency to meet 50 percent or more of the LSE's RA obligation for the annual or monthly period,

The stakeholder initiative will consider the CPM designation(s) that triggered the stakeholder initiative and possible solutions to discourage LSEs from relying on the backstop for forward capacity procurement in the future. The stakeholder proceeding shall not encompass adjudicating the conduct of individual LSEs' capacity procurement decisions. The stakeholder proceeding may consider prospectively-applicable remedial measures designed to avoid LSE reliance on the CPM.

2. Retain existing backstop authority and foreseeable changes

Under the existing CPM, the ISO has the authority to designate eligible capacity to provide CPM services in eight circumstances.[2] These are listed in Figure 1.

Figure 1: CPM designation events

1. Insufficient local capacity in cumulative load serving entities' annual or monthly resource plans
2. Collective deficiency of capacity in a local area
3. Insufficient flexible capacity in cumulative load serving entities' annual or monthly resource plans
4. Insufficient system capacity in cumulative load serving entities' annual or monthly resource plans
5. Insufficient system capacity in cumulative load serving entities' monthly resource plans after accounting for planned outages
6. Significant event
7. Exceptional dispatch
8. Risk of retirement

This settlement will maintain the ISO's authority to designate CPM resources under the existing events.

Foreseeable future changes to the CPM

The ISO is in the process of revising planned outage rules and may change the CPM designation rules for planned outages. The changed planned outage rules may also cause the CSP timeline to change.

Additionally, if the California Public Utility Commission (CPUC) adopts a multi-year requirement to their RA program, the ISO may initiate a stakeholder process to consider adding another CPM designation category in circumstances where Load Serving Entities (LSEs) procure insufficient multi-year forward capacity and the potentially revise the authority to designate resource under the risk of retirement authority.

3. Competitive solicitation process summary

The ISO will procure and price backstop capacity designated under the CPM through a competitive solicitation process (CSP). This process will be set up to run annually, monthly, and intra-monthly to cover all potential CPM designations with the exception of a risk-of-retirement designation. A risk-of-retirement designation will not go through a CSP and instead be designated according to current rules in tariff section 43.2.6 and submit an offer price in addition to the items in 43.2.6 (5).

[2] These are described in detail in Tariff section 43.

Figure 2: Competitive solicitation process by CPM event

Timeframe	CPM event covered
Annual	Insufficient cumulative local, system, or flexible capacity in RA plans Collective deficiency in local area
Monthly	Insufficient cumulative local, system, or flexible capacity in RA plans Insufficient cumulative system capacity due to planned outages
Intra-monthly	Significant event Exceptional dispatch
Other	Risk of retirement

The foundation of the competitive solicitation process will be rules for (1) suppliers to offer non-RA capacity into the solicitation process, (2) mitigation rules, and (3) determining which resource the ISO will offer a CPM designation. This is illustrated in Figure 3.

Figure 3: Competitive solicitation process

Offers	Mitigation	Designation
(1) Registration and initial bidding (2) ISO validation of bids (3) Adjustment period (4) Bid finalization	(1) Soft offer cap price (2) Justification process at FERC for higher price (3) Advance bidding with limited flexibility	(1) CPM capacity need determined (2) Capacity evaluated using designation criteria (3) Resource offered CPM designation

Suppliers will offer into the CSPs non-RA capacity according to a defined set of rules that outline the offer format, product definition, and other terms and conditions of offering into the CSP. Offer guidelines will vary based on the CPM event as different resource products are needed for different events. Offer rules are described in section 4.

The CSP will also have mitigation measures. First, the CSP will include a soft offer cap on all bids. There will be a single soft offer cap for all CSPs and products. Second, the timeline forces suppliers to bid resource capacity into the CSP prior to the knowledge of whether and what type of CPM event may occur. Finally, any offers above the soft offer cap price must be cost-justified at FERC for recover up to a resource-specific cost of service rate.

There will be a set procedure for determining which resource to offer a CPM designation. The procedure will be based on the relative offers of capacity a CSP and transparent evaluation criteria. The designation procedure is described in section 5.

This process will necessitate update real-time and day-ahead operations Exceptional Dispatch tools that will enable the operators to take in account the differing capacity available and different prices based on system needs.

4. Competitive solicitation process offer procedure

There will be three initial offer periods for capacity to enter into a CSP. The offer procedure timeline will vary depending on when the CPM designation occur. The initial offer periods will take place (1) prior to the annual CPM process, (2) prior to the monthly CPM process, and (3) after the monthly processes closes and before the beginning of the RA month. All offers must be made during these initial periods, which are before the ISO knows whether a CPM designation will be needed. Once finalized, offers may only be released under the conditions in section 4.5. Finalized offers are binding and may not be removed from the CSP until released by the ISO after completion of the competitive solicitation process. All offers are assumed to be valid for either a 30-day or 60-day period depending on the CPM event type.[3]

4.1. Offer timeline and process

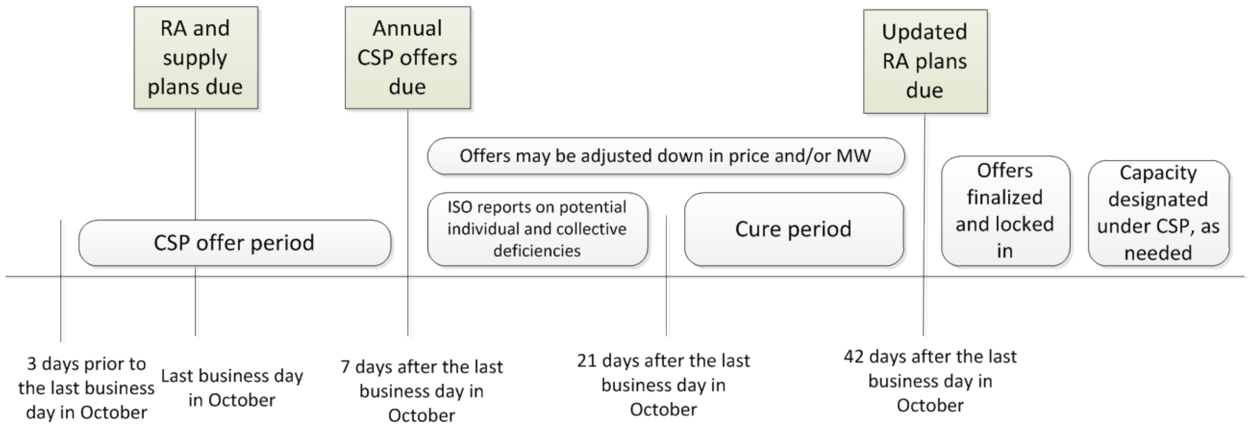
During the initial offer period, the ISO will validate offers and give the supplier an opportunity to revise any non-conforming offers. After the initial offer period is closed, the suppliers will have a fixed number of days to either completely remove their offer, remove a portion of their offer, or lower their price. In the annual and monthly process the offer adjustment period will occur concurrent to the ISO determining whether there is a capacity shortage and allowing Load Serving Entities (LSEs) to cure any shortages through the current RA process. At the end of this adjustment period all offers will be finalized and locked in for a set period of time as the ISO assesses the need for a CPM designation. After the determination of whether a CPM is needed the ISO will either release the offers or issue the resource a CPM designation.

4.1.1. Annual timeline and process

Figure 4 shows the timeline for the annual CSP. Initial offers for the annual CSP would be due 7 days after the annual RA compliance showing. An adjustment period will coincide with the cure period and during this time market participants will have the option to remove or lower the offer price of any previously offered capacity.

[3] If a resource is designated for 60 days, the resource will be paid using the initial month's CSP offer price.

Figure 4: Annual competitive solicitation process timeline

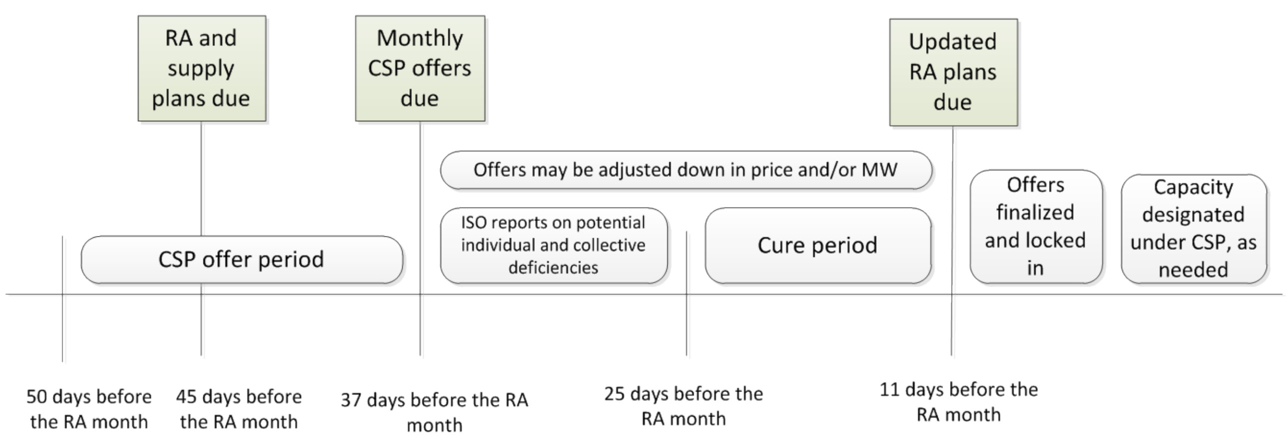


Offers into the CSP can be adjusted down in price or MW until 43 days after the last business day in October. At this point the ISO will re-validate that the offered capacity is not already shown on an RA plan and finalize the offer set. This finalized offer set cannot be removed until after the annual CSP process is complete; however, all offers will be released no later than the 5th business day of January.

4.1.2. Monthly timeline and process

The ISO will solicit offers for capacity beginning at 50 days before the RA month and close the offer period 37 days before the RA month. Offer prices may be adjusted down in price or MW until 10 days before the RA month. At this point the ISO will re-validate that offered capacity is not already shown on an RA plan and finalize the offer set. This finalized offer set will not be able to be removed until after the monthly CSP process is complete; however, all offers will be released no later than the 5th business day of the applicable RA month.

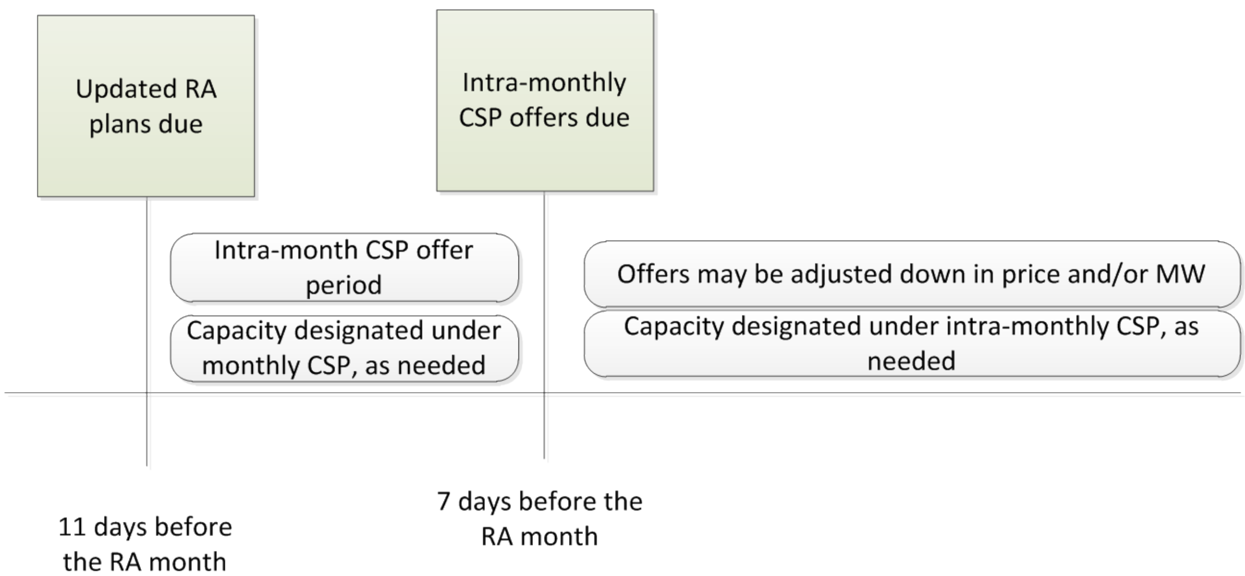
Figure 5: Monthly competitive solicitation process timeline



4.1.3. Intra-month timeline and process

Intra-month offers will be due 7 days prior to the RA month. Scheduling coordinators may remove these offers or lower the price at any time during the month prior to the day-ahead market run for the following day. Any offers in the system during an intra-month CPM event will be locked through the assessment and designation period. The offers will expire on the last day of the RA month or when they are removed from the CSP.

Figure 6: Intra-month competitive solicitation process timeline



4.1.4. Exceptional Dispatch

Exceptional dispatches often require the ISO to make prompt backstop procurement decisions and do not allow the ISO time to conduct a separate competitive solicitation for a particular exceptional dispatch. Therefore, the ISO will use offers from the intra-month competitive solicitation process if it must designate a resource under an exceptional dispatch. These offers will be due 7 days prior to the month and will expire on the last day of the month unless removed. In no event can the offer price in the monthly solicitation process be increased until the next intra-month solicitation. The approach best balances two goals: 1) the ability to make timely CPM designations and, 2) to reflect current market conditions to the extent practicable.

4.1.5. Significant event

Significant events often require the ISO to make prompt backstop procurement decisions and do not allow the ISO time to conduct a separate competitive solicitation for a particular significant event. Therefore, the ISO will use offers from the intra-month competitive solicitation process if it must designate a resource under a significant event. These offers will be due 7 days prior to the month and will expire on the last day of the month unless removed. In no event can the offer price in the monthly solicitation process be increased until the next intra-month solicitation.

The significant event CPM designation has the additional rule that the ISO has the opportunity to extend the initial 30 day designation by an additional 60 days. In addition, at the end of the 90-day designation period, if the significant event is ongoing, the ISO will work with stakeholders to consider available options, which include the possibility of extending the existing CPM designation. If a significant event continues after the initial 30 day designation period and after 90 days, and the ISO desires to extend the significant event CPM in time, the ISO may:

- Extend the CPM event and designation at the initial offer price of the designated resource, or
- Use the current intra-month offers to choose a new resource and allow the current resource under the CPM designation to offer into the intra-month CPM at a lower price.

4.2. Participation

Participation in the CSP will be strictly voluntary. The designation procedure will only occur in the event the ISO needs to procure backstop capacity, and the ISO will make all payments and allocate costs through its settlement system. The ISO is not restricting participation in the CSP by any specific entity type; however, only non-RA capacity is eligible for a CPM designation. Partial-RA resources may offer into the CSP any non-RA capacity in accordance with the CSP offer rules.

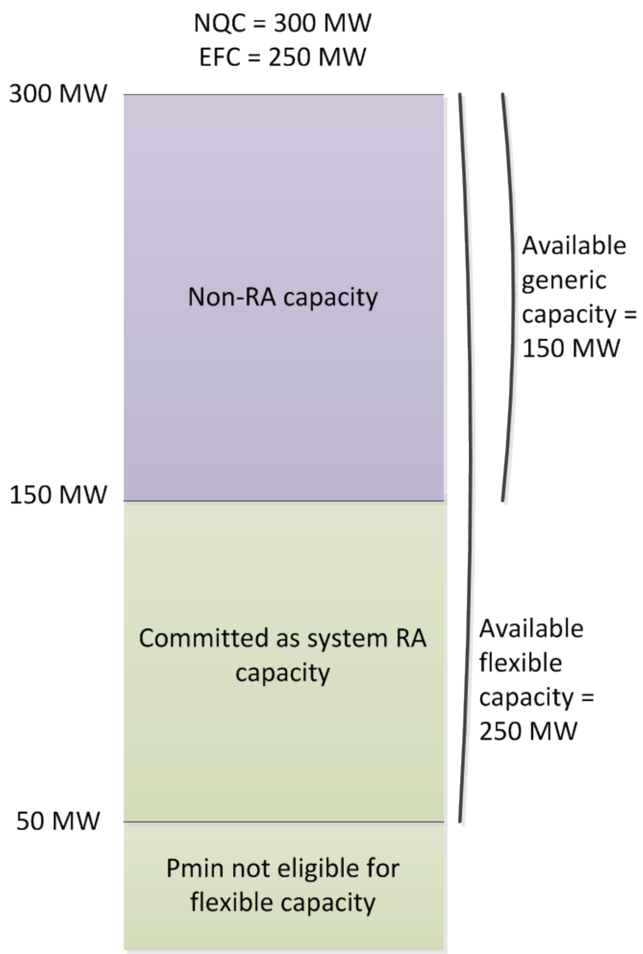
4.2.1. Roles and responsibilities of participants

In order to participate in the CSP, suppliers must register and agree to abide by certain participation terms. Suppliers must demonstrate that they control the offered capacity and agree to abide by the terms and conditions. This demonstration is automatically fulfilled for resources that have a signed Participating Generator Agreement with the ISO.

4.2.2. Validation of offer eligibility

The ISO will validate eligibility within the offer process by checking that offered capacity is less than the resource’s Net Qualifying Capacity (NQC) or Effective Flexible Capacity (EFC), as applicable, minus the value shown for the resource on any LSE’s RA plan and as substitute or replacement capacity. Figure 7 illustrates a resource’s eligible capacity to offer into a CSP.

Figure 7: Example of eligible capacity to offer in CSP



The resource has already committed to the ISO 150 MW of the resource as system RA. Therefore the remaining generic amount they may offer in is 300 MW – 150 MW (NQC – committed system RA), which equals 150 MW. The resource has not committed any flexible RA, so may offer in their full EFC, which equals 250 MW. The ISO will validate that the supplier does not offer into the CSP more than these amounts.

Annual CSP. In the annual CSP process, the ISO will validate that all offers are not overlapping with any capacity from that resource on an RA plan in any applicable month of the annual showing during offer finalization. As long as the resource has sufficient capacity between the relevant NQC or EFC and the amount shown on any RA plan, this capacity is eligible to participant in the annual CSP.

Monthly CSP. In the monthly CSP process, the ISO will validate that all offers are not overlapping with any capacity from that resource on an RA monthly plan or used as replacement or substitute capacity during offer finalization. There will be no look back to the annual monthly RA showing to verify that the resource was not on that plan as well.

Intra-monthly CSP. In the intra-monthly CSP process, the ISO will validate that all offers are not overlapping with any capacity is RA on the day the CPM designation would begin.

The ISO will require suppliers to provide sufficient information in the registration process to enable the ISO to validate the eligibility of the resource to comply with the offered RA type's must-offer obligations.[4]

4.3. Offer price form

Offers will have a standard price form that will be consistent through all CSPs. All CSPs will have the same offer form of $/kW-month. In the annual CSP, the ISO may have deficiencies in individual months, rather than a deficiency for an entire year; so, suppliers may offer in separate value for each month in the form of $/kW-month. Offers may vary from month to month in both price and MW quantity. All offers will be an "up to" value; however, a resource's minimum load value will be taken into account during CPM designation and no resource will receive a CPM designation for less than the resource's minimum load minus committed RA capacity.

4.4. Offer price submittal rules for multiple capacity types

Offer submittal requirements will vary between the annual and monthly CSP and the intra-month CSP due to different CPM events being covered by the different CSP processes. In the annual and monthly CSP processes the ISO must develop rules to account for potential CPMs of both flexible and generic capacity. In the intra-month CSP process, the ISO does not have tariff authority to CPM specifically for flexible capacity and so will only solicit offers for generic capacity.

There will be a single price for capacity and a separate MW value for flexible and generic capacity. This will allow a supplier to sell a single MW as flexible, generic, or both flexible and generic capacity. For all products bid into all CSPs, capacity from a single resource must come with a single $/kW-month offer price.

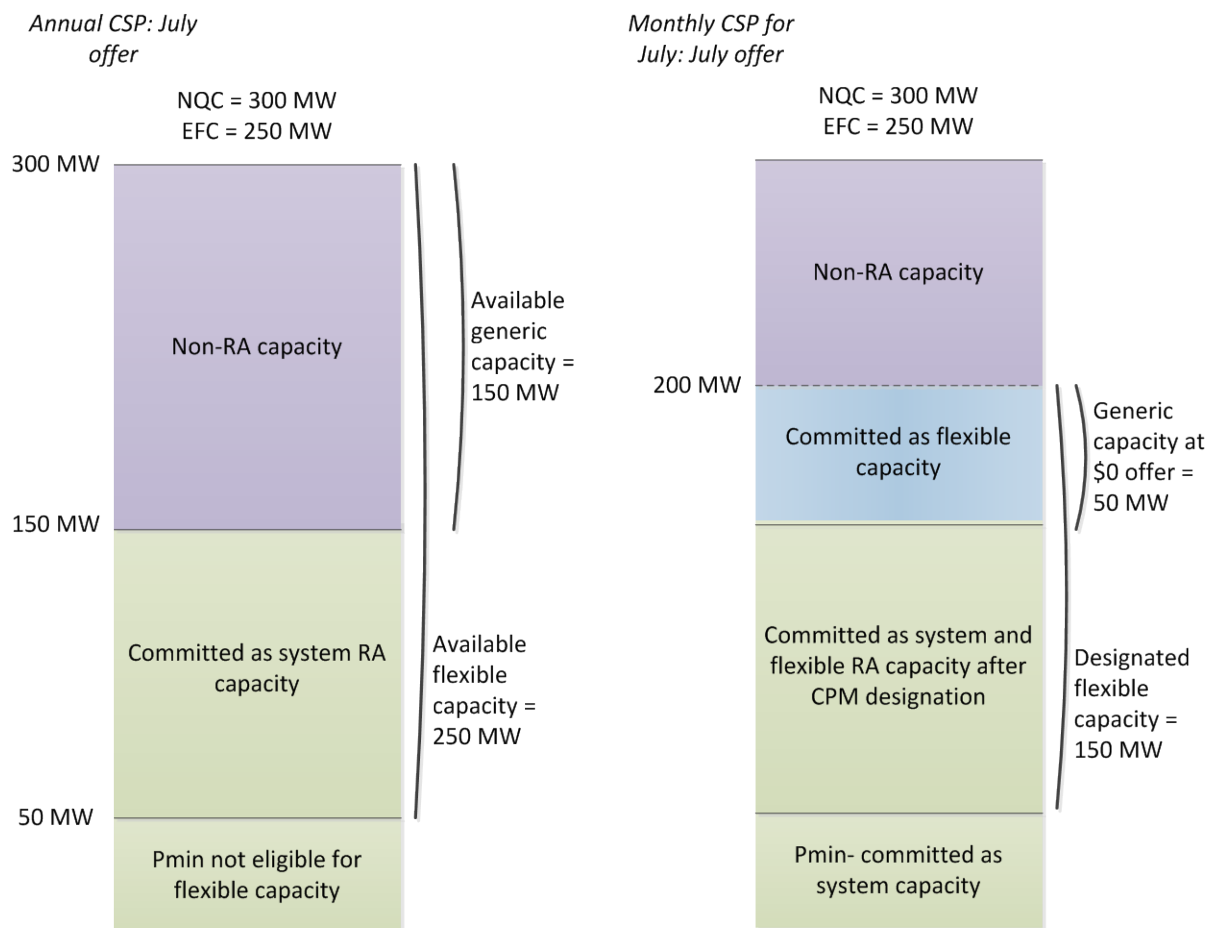
In order to prevent potential double payments by the ISO, if a supplier individually offers both flexible and generic capacity, the supplier must also agree that if it receives an annual or monthly CPM designation for either flexible or generic RA, in any following CSPs that overlap with designated capacity that the ISO will automatically offer in the remaining RA type capacity in at $0/kW-month up to the minimum of the amount available as non-RA capacity and original designation.

Figure 8 illustrates the amount of capacity that the ISO would automatically offer into the associated CPM. The graphic on the left shows the original resource's RA capacity and offer into the annual CSP for July. The resource is committed for system RA for 150 MW, but has offered an additional 150 MW of generic RA and 250 MW of flexible RA. In the annual CSP, the ISO designates the resource for 150 MW of flexible RA.

[4] RA type refers to both whether the RA is local, system, and/or flexible as well as the flexible category.

Now, once the July CSP monthly process is run, in order to prevent double payment from the resource, the underlying generic capacity to the flexible RA is automatically offered into the July monthly CSP at $0/kW-month. This is shown the right graphic, by the shaded blue portion. The ISO will calculate the overlapping portion from the bottom down, so if the resource had already been shown on an RA plan for 200 MW of generic capacity, the ISO would not insert an additional 50 MW at $0/kW-month. Additionally, the resource is free to offer in any of the remaining non-RA capacity into the CSP without additional restrictions.

Figure 8: Example of capacity that will be automatically offered into associated CSP at $0/kW-month



Flexible capacity category

A supplier may only offer capacity into a single flexible RA category (super-peak, peak, and base). It is up to the supplier to determine the flexible category into which it will offer, and the ISO will only validate that the resource is physically capable of complying with the must-offer requirements in that category.

If any capacity from a resource is designated at a higher quality category than other capacity shown as RA in that resource, then the entire RA capacity amount from the resource will have the must-offer obligation corresponding to the higher quality flexible capacity category. A resource may only have a single flexible must-offer obligation on its capacity. In the designation process, the ISO will always consider all categories that can meet the CPM event need, so there is no risk that offering into a higher category will remove capacity from the CPM designation procedure.

Local capacity

Local resources do not need to submit a separate offer for their local attribute. The ISO will evaluate local capacity in the event there is a shortage separately and will use the resource's generic capacity offer. The ISO will not allow a separate price for local capacity.

4.5. Offer removal

In the annual and monthly CSP process, scheduling coordinators may remove offers at any time during the offer adjustment period. In the intra-month CSP process scheduling coordinators must remove their offer in advance of the day-ahead market run. Soft offer cap price

The initial soft offer cap price will be set at the CEC estimated levelized going-forward fixed costs for a mid-cost, 550 MW combined cycle with duct firing resource in 2013 plus 20%. This equals $75.68/kW- year ($6.31/kW-month) using the CEC draft report mid cost results for insurance, ad valorum, and fixed operation and maintenance costs. This price will be used as a soft offer cap for all capacity types (system, local, flexible) and all competitive solicitation processes (annual, monthly, intra-monthly).

4.6. ISO Methodology to determine updates to soft offer cap price

Frequency and update methodology

The soft offer cap price will be updated using the CEC's updated estimate for the levelized going-forward fixed costs of a mid-cost, 550 MW combined cycle with duct firing, or most similar resource assessed by the CEC, plus 20%.

The ISO will open a stakeholder process not less than every four years and concurrent with the CEC posting of the draft results for the levelized going-forward fixed costs of a mid-cost, 550 MW combined cycle with duct firing or similar resource. The stakeholder process would not automatically reassess the use of a mid-cost, combined cycle unit as the reference resource or the 20% adder, but no party is precluded under the settlement from requesting that the stakeholder process allow for consideration of changes to the reference resource, the adder, or the components of the going forward fixed cost calculation for the reference resource. The ISO will complete this initiative within 6 months of the CEC draft cost publication.

Following completion of the stakeholder process and subject to any necessary action(s) by the ISO Board of Governors the ISO would make a section 205 filing to change the soft offer cap.

All parties reserve all rights with respect to such filing; provided that any party that wishes to challenge the use of a mid-cost, 550 MW combined cycle unit with duct firing as the reference resource (or the most similar gas-fired resource, if the CEC study no longer evaluates such combined cycle resource) or the 20 percent adder shall bear the burden of showing that the use of such reference resource or use of a 20 percent adder is unjust, unreasonable, or unduly discriminatory or preferential.

4.7. ISO Offers above soft offer cap

The ISO will allow suppliers to go to FERC to cost-justify offers above the soft offer cap.

Timing of FERC request

A supplier may go to FERC prior to offering the resource into the competitive solicitation process to cost-justify or after a CPM designation is received.

Payments made based on cost-justification

The ISO will accept the FERC approved cost-of-service rate for 3 years from the approval date. This rate will be paid in the form of $/kW- year divided by 12 to get a $/kW – month payment. The ISO will make this payment for the term of the designation. The ISO will not deduct bilateral or energy revenues from this value. A resource cannot file at FERC to recover costs that are higher than its bid into the CSP.

4.8. Limits on bidding flexibility

In each CSP a supplier must offer capacity into the competitive solicitation before the ISO determines that a deficiency exists. The supplier will not have the flexibility to increase its original offer price, although it may lower the price.

Additionally, during the period between the initial bid and the bid finalization,, the supplier may remove all or a portion of the resource's capacity, subject to rules described in section 4.5.

5. Competitive solicitation process designation procedure

5.1. CPM designation eligibility

Any capacity shown on an RA plan that counts toward the flexible, local, or system RA requirement is considered "RA capacity." Capacity on a monthly RA plan will be considered RA for the entire month unless on outage. This includes flexible and generic resources that are only assessed under the availability incentive mechanism during certain days and hours. Capacity on a monthly RA plan is not eligible to receive a CPM designation in that month for the same RA type shown on the monthly plan. This applies to capacity that has been designated for a term that overlaps with the following RA month and then is included in the following month on an LSE's RA plan. The ISO will prorate a designated resource's CPM payments using the final designation term and MW quantity.

Additionally, capacity on a monthly plan or used for replacement and substitution will not be eligible for an exceptional dispatch CPM designation payment. Specifically, any capacity that is RA at any point during an operating day will not be eligible to receive a CPM designation if exceptionally dispatched during that day regardless of the RA capacity type and must-offer hours.

5.2. Designation procedure process description

When deciding which resource to issue a CPM designation, the ISO will implement the following process. This will not apply to the risk-of-retirement CPM designation. The CPM designation, as appropriate, would continue subject to tariff section 43.3.1, 43.3.3., and 43.3.4. The ISO is not proposing any changes to the current designation criteria process for risk-of-retirement CPM (tariff section 43.2.6).

5.2.1. Ability of the eligible capacity to meet the designation criteria

The ISO will first establish the minimum criteria needed to meet the requirements of the specific CPM event designation. The ISO will group the capacity into RA types and categories. The minimum criteria may include an evaluation of whether the resource can meet the criteria given any known outages on the resource. If the resource does not meet the minimum criteria needed for the CPM event designation, the ISO will not consider it regardless of its relative qualifications in 5.2.1 through 5.2.6.

If there is insufficient capacity to meet the need within this step, the ISO will not move on to the next step and instead will look toward capacity that was not offered into the CSP to assess this capacity against the minimum criteria. Under the circumstance where the ISO must use capacity that was not offered in to the CSP to meet the minimum criteria, the ISO will insert the soft offer cap for the purposes of the designation procedure. If ISO designates capacity from a resource that was not offered into the CSP, the supplier will have the option to turn down the CPM designation and be paid under the supplemental revenues option or provide cost-justification for a higher price after-the-fact.

In the event there is no capacity from either offered or non-offered resource pools that meets the ISO's initial minimum criteria to satisfy the CPM need, the ISO will reassess and lower the minimum criteria. The ISO will then redo this step using the lowered minimum criteria.

5.2.2. Assessment of costs

Once the ISO has narrowed the pool of capacity to only capacity that will, at a minimum, meet the CPM required needs, the ISO will then compare offered capacity costs. The following subsections describe how the ISO will create equivalent prices between resources with different resource characteristics.

5.2.3. Capacity costs associated with the eligible capacity

The ISO proposes to use the competitive solicitation offers as the foundation for creating equivalent capacity prices across eligible resources. For resources that offered into the relevant CSP the ISO will use the offered capacity bids in the following subsection. If it becomes necessary, for capacity that a scheduling coordinator did not offer into the relevant CSP, but has been determined needed in the minimum criteria step, the ISO will use the soft offer cap proposed in section 0 If this resource is designated under the CPM, it will have the option to cost-justify a higher price after-the-fact at FERC.

Quantity of a resource's available eligible capacity, based on a resource's PMin, relative to the remaining amount of capacity needed

Using the capacity costs determined in section 5.2.3, the ISO will next use the resource's Pmin and amount of capacity the ISO needs to determine a $/kW-month comparable value. For example, assume a scenario where the ISO only needs 40 MW of capacity. Unit A has a Pmin of 20 MW and Unit B has a Pmin of 50 MW. If both units offer in at the same price, the ISO will select unit A because it will have a lower "equivalent price", *i.e.,* the ISO only needs to buy 40 MW from unit A but must by 50 MW from unit B at the same price.

5.2.4. Quantity of a resource's available eligible capacity, based on outages and replacement or substitute daily RA

The ISO will take into account known days that the resource is used as replacement or substitute RA or on outage in the designation procedure. Using the capacity costs determined in the above sections, the ISO will next use the resource's days as replacement or substitute RA or on outage, and amount of capacity the ISO needs, in order to determine a $/kW-month comparable value.

5.2.5. Susceptibility of the resource to restrictions as a use-limited

The ISO will then evaluate whether a resource's use-limitations have the potential to not fully satisfy the ISO's expected future needs, and as such, poses the risk of having to make another CPM designation to address the reliability need. Resources already designated for certain days as RA during the CPM designation period will also be evaluated at this time. The ISO may choose a resource that is more expensive, but available to provide additional capacity throughout the month if the ISO deems that there is a potential that the resource will not fully meet the ISO's reliability needs and there is a risk of an additional future CPM.

5.2.6. Other considerations

Finally, in the annual and monthly CSP process the ISO will use other considerations in the event multiple resources have the same equivalent cost of capacity. In the intra-month CSP the ISO will also take into account the following in the event offers are within 10% of each other in terms of $/kW-month during an exceptional dispatch or significant event CPM:

- Effectiveness of the eligible capacity in meeting local and/or zonal constraints or other ISO system needs
- Operating characteristics of the resource, such as use-limitations, dispatchability, ramp rate, and load-following capability

This will be at the ISO's discretion and be based on expected needs beyond the minimum criteria.

5.3. Supplemental Revenues option

The current supplemental revenue option allows resources to receive unmitigated energy market revenues in lieu of an exceptional dispatch CPM payment. A resource that turns down a CPM designation will be paid in accordance with current supplemental revenues policy. The payment will be capped over a calendar month at the soft offer cap price. After the cap is reached, the resource will be paid consistent with RA resources that receive an exceptional dispatch. A resource that turns down the CPM will not be subject to any additional RA rules, including RUC participation, must-offer obligations, and the availability incentive mechanism.

5.4. Designation of flexible RA capacity

Settling parties also agree that the likelihood of the need to backstop for Flexible RA capacity is very low, and therefore desire to monitor any CPM designations for flexible capacity RA deficiencies. To the extent that any CPM designations for flexible capacity occur, the ISO will work with the applicable local regulatory authority (LRA) to determine whether the capacity received payments from all sources in an amount higher than the soft offer cap. The ISO will make the outcome of the investigation transparent. In the event the ISO determines that the market design has led to total payments in excess of the soft offer cap or FERC approved rate, the ISO would convene a stakeholder process to explore the market design features that resulted in this outcome.

5.5. Exceptional Dispatch CPM designation of non-RA capacity

Currently, in the event a non-RA resource receives a post day-ahead exceptional dispatch CPM, the ISO will conduct a reliability assessment in order to identify the capacity needed to meet the reliability need.[5] This ensures that the resource is compensated for the entire capacity amount the ISO is relying on regardless of the actual dispatch level in real-time. For a RA resource, the ISO does not conduct this test because the resource was already paid to provide capacity as a RA resource and does not need to be further compensated.

The ISO proposes to institute a post day-ahead reliability assessment for all partial-RA resources that received an exceptional dispatch. This assessment will follow the same process as the post day-ahead reliability assessment for non-RA resources that receive a day-ahead exceptional dispatch.

[5] BPM section 7.3.5.1.1.1

5.6. Risk-of-retirement CPM designation

The ISO will use the current tariff rules to designate a resource under the risk-of-retirement CPM. In addition, in order to qualify for a risk-of-retirement CPM, a resource must have offered all qualified RA capacity into all CPM solicitation processes prior to the time of its designation. This includes both the annual, monthly, and intra-monthly processes. This should ensure that any resource asking for a risk-of-retirement designation has done everything possible to get a RA contract. If a resource does qualify to receive a risk-of-retirement designation, the resource will then be compensated up to the soft-offer cap and any incremental FERC approved payments.

5.7. CPM designation payments

In the event a resource has capacity that is designated under the CPM, the ISO will pay the resource its offer price. In the event multiple resources are needed for a single CPM event, the ISO will pay each resource their individual offer price.

In the event a resource is designated for both flexible and generic capacity, the ISO will pay the resource the maximum between the flexible and generic value at the offered price.

5.7.1. Payment adjustments

The ISO will create a daily equivalent price from a designated resource's offer price and net out any days the CPM capacity was shown as replacement or substitute RA for the same capacity type. Flexible CPM capacity will not have payments netted for being used as generic replacement or substitute RA, and system or local CPM capacity will not have payments netted for being used as flexible RA. This will be done using the same methodology in tariff section 43.7.1, Appendix F, and pages 121-127 of the Reliability Requirements BPM[6] and will be amended to use days under RA contract rather than on outage. Only resources designated under the significant event or exceptional dispatch CPM may be used as replacement or substitution.

A resource will not be eligible to increase their CPM offer price once designated. Therefore the ISO will not adjust the payment if a resource is designated for a length of time that spans multiple CSPs and offer prices. A resource will only be compensated using the original offered rate regardless of the designation time period. Any new rate will have to be done through a new CPM event (even if it is for a continuing reason) and designation.

If the ISO designates a resource that offered above the soft offer cap, the ISO will initially pay the resource at either the FERC approved rate if the resource has a previously approved rate, or in the event FERC has not yet approved an amount above the soft offer cap, the soft offer cap price. The resource then has 30 days to file at FERC approval for the rate above the soft

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6 http://bpmcm.ISO.com/BPM%20Document%20Library/Reliability%20Requirements/BPM_for_Reliability_Requirements_V18_clean.docx on July 22, 2014.

offer cap. Once the FERC rate is received the ISO will adjust the payment to the resource up using that rate. A resource that elects to cost-justify at FERC, cannot receive a rate that is higher than the price it was designated under in the applicable CSP.

5.8. Obligations of designated resources

Any resource designated under the CPM will have all the responsibilities and must-offer requirements as RA resources of the same RA type and category. The exception to this rule is that the designated resource will have an individual availability incentive mechanism price. This price will be the price that the resource was paid by the ISO ($/kW-month).

6. Publication of competitive solicitation inputs and results (transparency)

The ISO will publish all finalized offers into the competitive solicitation processes on a rolling quarterly basis with a five-quarter-delay. Offers will be described by technology type or fuel type, MW quantity, RA category (system, flexible, local) and competitive solicitation process offered. A minimum of three resources must be in each fuel or generation type category in order to maintain resource anonymity. In the event of a CPM designation, in addition to the current market notice information, the ISO will also publish the accepted rate.

7. Monitoring of LSE reliance on CPM

The ISO will monitor the use of CPM to ensure that LSEs are not relying on the CPM as a means of capacity procurement to meet RA obligations. If either of the two following conditions are met, then the ISO will open a stakeholder initiative to explore the use of the CPM as a potential primary use of capacity procurement:

1) with the second occurrence of use of CPM by the same LSE for either an annual or monthly LSE deficiency within a rolling 24 month period, or

2) with the first occurrence of use of CPM by an LSE for either an annual or monthly LSE deficiency to meet 50 percent or more of the LSE’s RA obligation for the annual or monthly period,

The stakeholder initiative will consider the CPM designation(s) that triggered the stakeholder initiative and possible solutions to discourage LSEs from relying on the backstop for forward capacity procurement in the future. The stakeholder proceeding shall not encompass adjudicating the conduct of individual LSEs’ capacity procurement decisions. The stakeholder proceeding may consider prospectively-applicable remedial measures designed to avoid LSE reliance on the CPM.