

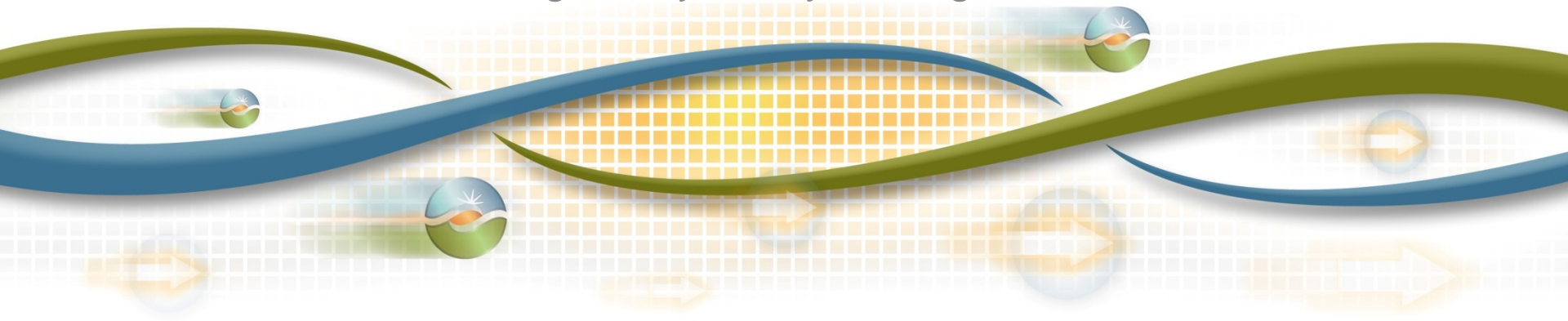


Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements

Issue Paper

Stakeholder Working Group Meeting
May 18, 2017
10:00 a.m.–3:00 p.m. Pacific Time

Keith Johnson
Infrastructure and Regulatory Policy Manager



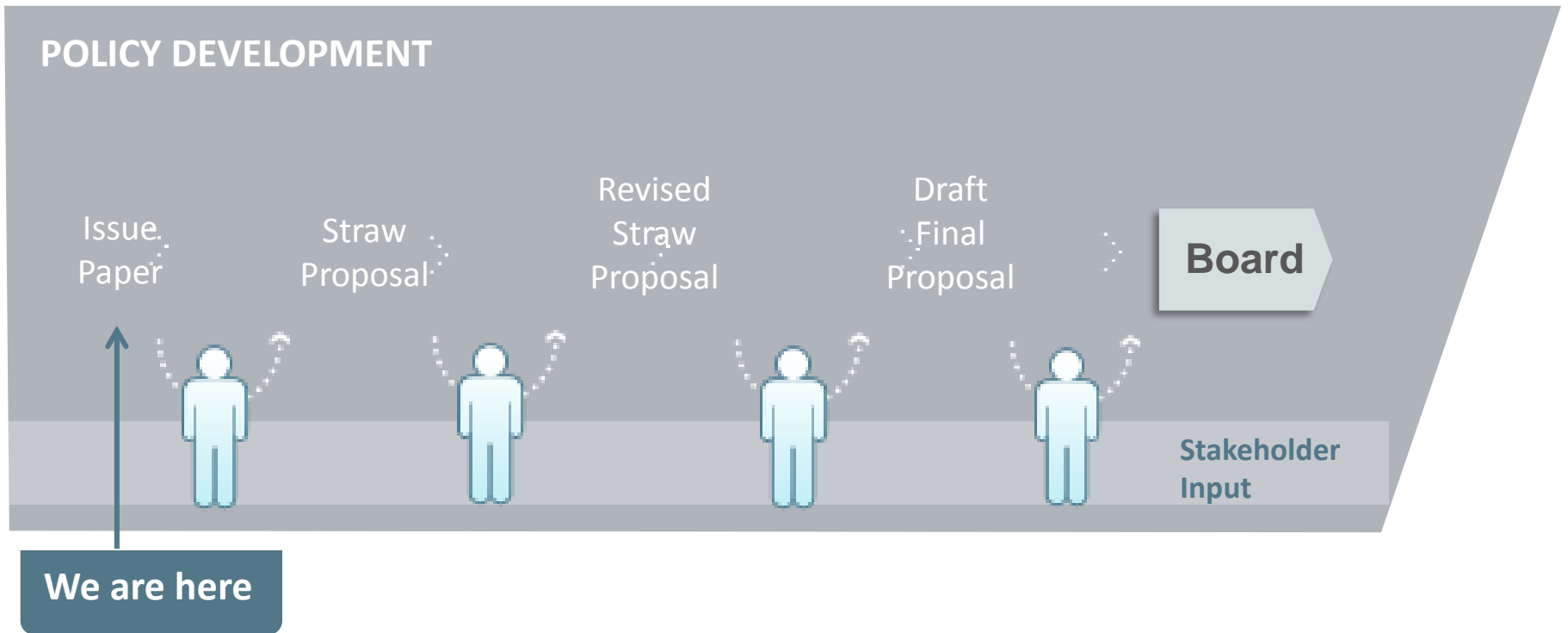
Agenda

Time	Item	Speaker
10:00-10:10	Plan for Stakeholder Engagement	Jody Cross
10:10-10:30	Introduction and Scope of Initiative	Keith Johnson
10:30-10:50	Existing Backstop Procurement Authority	Keith Johnson
10:50-11:10	Identified Issues	Keith Johnson
11:10-12:00	Stakeholder Input - Needs and Issues	Stakeholders
12:00-1:00	Lunch Break	(on your own)
1:00-2:30	Stakeholder Input - Needs and Issues (cont'd)	Stakeholders
2:30-3:00	Next Steps	Jody Cross

PLAN FOR STAKEHOLDER ENGAGEMENT

Stakeholder Process

Capacity Procurement Mechanism
Risk-of-Retirement Process Enhancements



Plan is to present proposal to CAISO Board for approval on November 1-2, 2017.

- To facilitate development of straw proposal, will hold two working group meetings for stakeholders to exchange ideas
 - First meeting - focused on needs and issues
 - Second meeting - focused on potential solutions
- Stakeholders encouraged to participate in working group meetings and present ideas, concerns and potential solutions

Stakeholder Process Schedule

CPM Risk-of-Retirement Process Enhancements

Document	Date	Milestone
Issue Paper	May 10	Post issue paper
	May 18	Hold stakeholder working group meeting
	May 25	Hold stakeholder working group meeting
	June 1	Stakeholder written comments due
Straw Proposal	June 20	Post straw proposal
	June 27	Hold stakeholder call
	July 12	Stakeholder written comments due
Revised Straw Proposal	August 8	Post revised straw proposal
	August 15	Hold stakeholder call
	August 28	Stakeholder written comments due
Draft Final Proposal	September 12	Post draft final proposal
	September 19	Hold stakeholder call
	October 3	Stakeholder written comments due
Final Proposal	November 1-2	Present for approval at Board meeting

INTRODUCTION AND SCOPE OF INITIATIVE

Stakeholders have requested enhancements to process to procure resources at risk of retirement.

- Initiative was identified in *2017 Stakeholder Initiatives Catalog*
- Retirements may be driven by insufficient revenues when resource is not procured by load-serving entity (“LSE”) for resource adequacy (“RA”) capacity
- Process is contained in Capacity Procurement Mechanism (“CPM”) tariff section 43A.2
- Hope to implement enhancements by end of Q1 2018

Scope is limited to process improvements.

- Current tariff limited to resources without RA contract for upcoming RA year
- Owners say it is problem to not know whether they will be procured for next year until well after October 31 of current year
 - Insufficient time to make important business decisions
 - **This initiative will explore whether analysis can take place prior to October 31**
- **May need provisions to address multiple resources requesting designation for same period**
- Believe other current CPM tariff provisions will work with enhanced process

Limitations of current CPM risk-of-retirement process were highlighted in March 2017.

- Calpine had four units that were at risk of retirement
- CAISO Board authorized procurement of two units using Reliability Must-Run (“RMR”) tariff provisions
 - CPM not used because of process limitations
 - Only viable option was to use RMR designation rather than CPM designation
 - This initiative will address CPM shortcomings so CPM can be used as first and primary backstop procurement option in risk-of-retirement situations

EXISTING BACKSTOP PROCUREMENT AUTHORITY

CPM is used as a last resort to ensure reliable operation of the grid.

- Authority is only under the following situations
 - Insufficient local, system or flexible RA capacity in year-ahead or month-ahead RA showings
 - “Significant Event” occurs on grid
 - Reliability/operational need for Exceptional Dispatch
 - Capacity needed for future year is at risk of retirement
- Designated capacity has “must-offer obligation” to offer its capacity into CAISO’s markets

The authority for risk-of-retirement procurement applies in specific situations.

- Only for a resource that is not under an RA contract
 - If resource is under RA contract, it has to wait until it will no longer be RA to apply for designation
- If resource is not under an RA contract, it can apply at any time during year for CPM risk-of-retirement designation
- Expect process will take 3-4 months to complete from date of request until procurement

Tariff: “CAISO will not issue CPM designations in order to circumvent existing procurement mechanisms that could adequately resolve reliability needs”

The CPM process steps that are of particular interest are listed below.

- CAISO must conduct study to determine that resource is needed in subsequent RA year
- CAISO must
 - Post report and allow no less than 7 days for stakeholders to review and submit comments
 - No less than 30 days for LSE to procure capacity from that resource
- CAISO may issue CPM designation only if no LSE procures that particular resource

CAISO may issue CPM designation only if the following conditions have been met.

- CAISO did not identify deficiency, individual or collective, in LSE's annual RA plan for current RA compliance year that resulted in CPM designation for resource
- CAISO projects the resource is needed for reliability by end of calendar year following current RA compliance year
- No new generation is projected to be in operation by start of subsequent RA compliance year that will meet identified reliability need

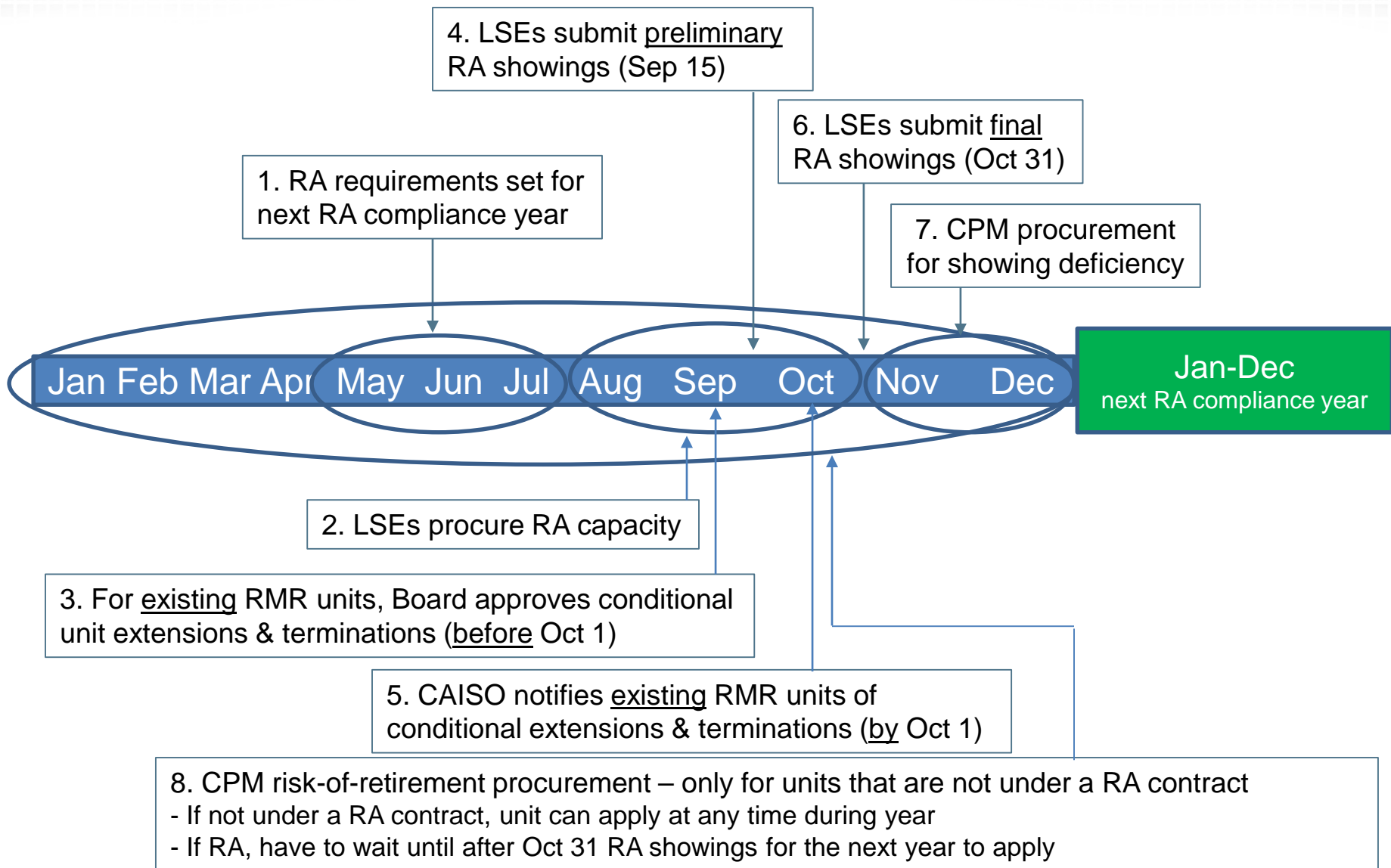
Conditions (continued).

- Resource owner must submit the following at least 180 days prior to terminating resource's Participating Generator Agreement
 - Request for designation, including offer price and affidavit of executive officer
 - Supporting information that attests it will be uneconomic for resource to remain in service and decision to retire is definite unless CPM procurement occurs
- Scheduling Coordinator has offered all eligible capacity from resource into all competitive solicitation processes for current RA year

RA, RMR and CPM work together to ensure reliability.

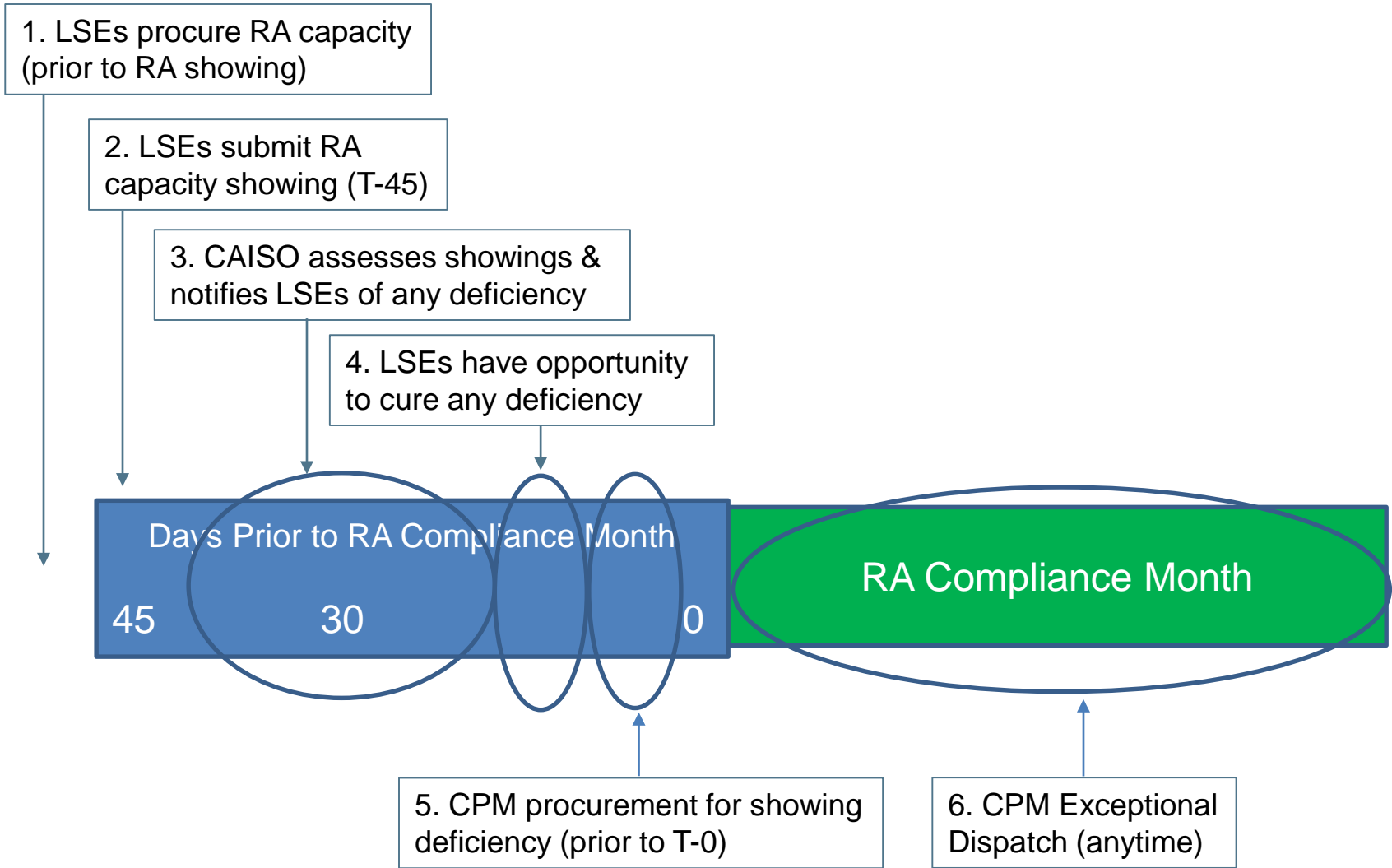
Process	Role	Use	Procured By
RA	Primary capacity	<ul style="list-style-type: none"> • System capacity • Local capacity • Flexible capacity 	LSEs
RMR	Unmet reliability need	<ul style="list-style-type: none"> • Capacity from specific unit is needed, and unit is not contracted for RA • Unit is contracted as RA, but voltage support, black start or dual fuel capability services not provided • Unit may exercise market power • Protect availability of given unit that could be jeopardized or reduced without RMR contract 	CAISO
CPM	Last resort capacity	<ul style="list-style-type: none"> • Insufficient local, system or flexible RA capacity in year-ahead or month-ahead showing • Significant Event on grid • Need for an Exceptional Dispatch • Capacity at risk-of-retirement needed for next year 	CAISO

“Year-Ahead” Timeline



* RMR procurement of new RMR unit can occur at any time during year

“Month-Ahead” Timeline



In March 2017, RMR was used instead of CPM for Calpine units because of restrictive CPM conditions.

- Only resources that are not under an RA contract can request and be granted CPM risk-of-retirement procurement
 - Calpine units are currently under RA contract until end of 2017
- If resource is currently RA, it has to prove that an LSE has not picked it up for RA for next year
 - LSEs submit final year-ahead RA showings on October 31
 - Calpine needed answer in March 2017; it could not wait until October 31 to start CPM process
- RMR does not have these conditions
- This initiative will address these CPM shortcomings

IDENTIFIED ISSUES

Thus far, the CAISO has identified six issues.

Issue	Discussion
Who/When can apply	Tariff allows only resources that are <u>not</u> under RA contract to request and be granted procurement, which limits scope of resources that can apply
Timing	Process may not provide sufficient time for resource owner to make retirement business decisions <ul style="list-style-type: none"><li data-bbox="490 682 1738 815">• Owners do not want to wait to start CPM process until after RA showings are submitted on October 31 and identified procurement deficiencies are cured in mid-December<li data-bbox="490 825 1663 911">• Current process gives only about a month of notice to manage important decisions
Deadline	Currently no deadline for a resource to seek a designation <ul style="list-style-type: none"><li data-bbox="490 996 1692 1130">• Could result in serial designation requests whereby no reliability need may exist for the first resource(s) that seek(s) CPM designation

Issues (continued).

Issue	Discussion
Selecting from Competing Resources	Multiple resources may seek designation, but not all of the capacity may be needed – need to determine how to decide which resource(s) are granted designation
Decision to Accept	Owner currently can accept or decline offer of designation – discuss whether any change is needed
Forward Need Determination	Discuss whether a forward need determination could be made early each year for following year or contract cycle
Other Issues	Stakeholders invited to identify other enhancements to process they believe should be considered in this initiative

STAKEHOLDER INPUT - NEEDS AND ISSUES

NEXT STEPS

Next Steps

- Second working group meeting will be held on May 25
 - Focused on potential solutions
- Request stakeholders submit written comments by close of business on June 1
 - Use template provided on website at: [CommentsTemplate](#)
 - Submit to mailbox: initiativecomments@caiso.com