

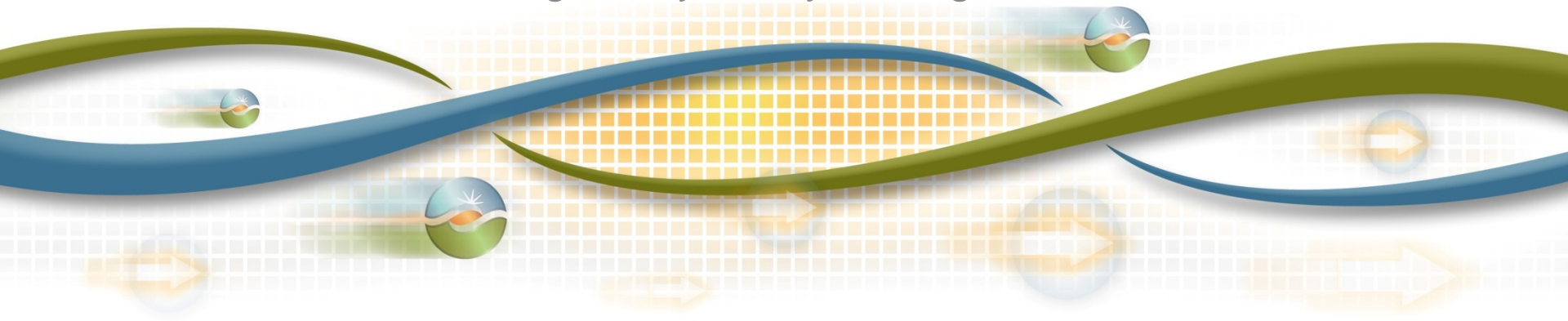


Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements

Revised Straw Proposal

Stakeholder Call
August 15, 2017
9:00 a.m.–12:00 p.m. Pacific Time

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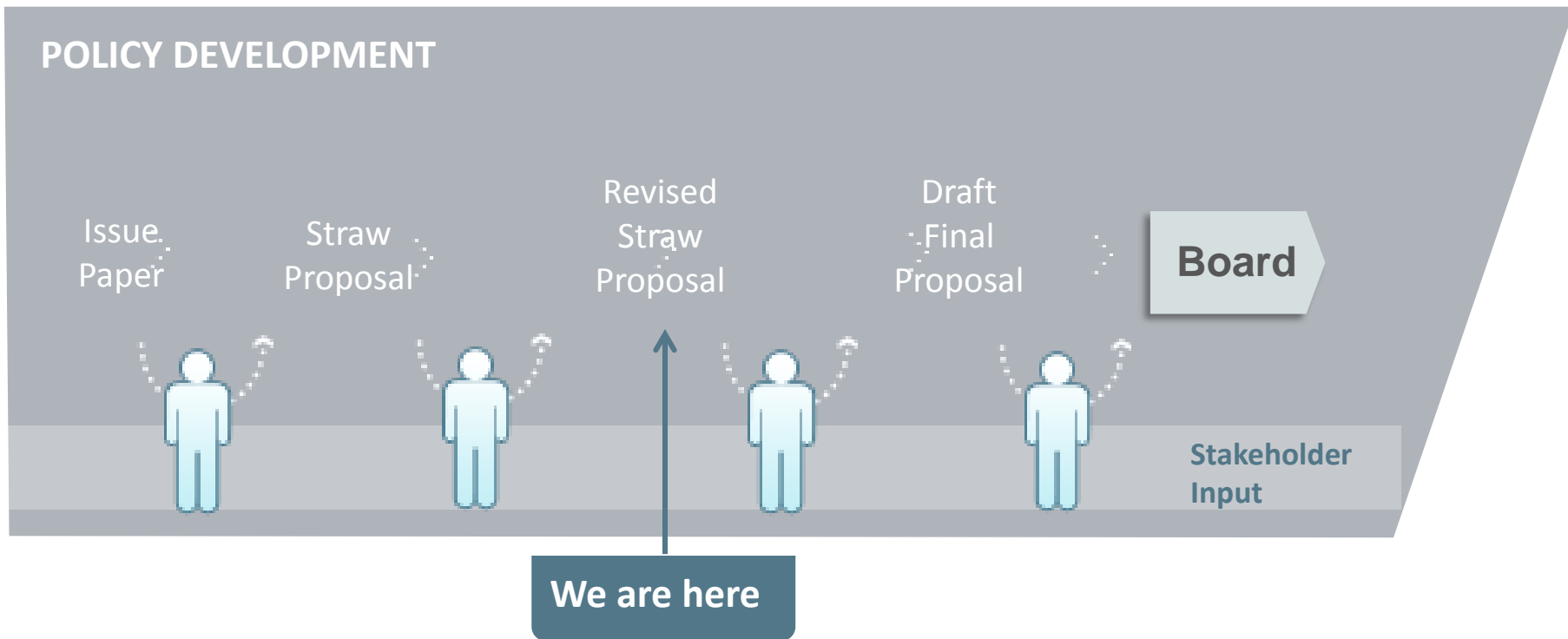
Agenda

Time	Item	Speaker
9:00-9:10	Plan for Stakeholder Engagement	Jody Cross
9:10-9:25	Scope and Background	Keith Johnson
9:25-9:45	Stakeholder Comments	Keith Johnson
9:45-10:10	Changes from Straw Proposal	Keith Johnson
10:10-11:55	Revised Straw Proposal	Keith Johnson
11:55-12:00	Next Steps	Jody Cross

PLAN FOR STAKEHOLDER ENGAGEMENT

Stakeholder Process

Capacity Procurement Mechanism
Risk-of-Retirement Process Enhancements



Stakeholder Process Schedule

Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements

Document	Date	Milestone
Issue Paper	May 10	Post issue paper
	May 18	Hold stakeholder working group meeting #1
	May 25	Hold stakeholder working group meeting #2
	June 6	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 11	Post draft final proposal
	September 18	Hold stakeholder call
	October 3	Stakeholder written comments due
Final Proposal	November 1-2	Present for approval at Board meeting



SCOPE AND BACKGROUND

The CAISO is authorized to use its backstop procurement authority in four situations.

1. Insufficient local, system or flexible resource adequacy (“RA”) capacity in year-ahead or month-ahead RA showings
2. “Significant Event” occurs on grid
3. Reliability/operational need for Exceptional Dispatch
4. Capacity needed for future year is at risk of retirement (“ROR”) ←

Resource owners have requested enhancements to the CAISO's process to procure resources at ROR.

- Concerned that if resource is currently under a RA contract, but not likely to be procured as RA for next year, resource cannot apply for unit to be procured under backstop procurement mechanism until after October 31 of current year*
 - Believe this condition results in resource owner having insufficient time to make important business decisions
 - Owners would like longer “runway” to make decisions

* CAISO's backstop procurement authority for ROR is in Capacity Procurement Mechanism (“CPM”) tariff, section 43A.2

Scope of initiative is limited – CAISO is not redesigning the major features of the backstop mechanism.

- Will explore whether application and process can be improved and analysis and reporting can take place prior to October 31 – thus speeding up process
- Need provisions to address situation where multiple resources may seek backstop designation at same time but reliability need is such that CAISO cannot designate all of the resources that have applied

The key risk-of-retirement process steps are listed below.

- If a resource wants to be considered for CPM ROR designation it must submit an application to CAISO
- CAISO must conduct study to determine that resource is needed in subsequent RA year
- If conditions are met, CAISO must
 - Post report and allow no less than 7 days for review and comments
 - Allow at least 30 days for any LSE to procure capacity from that resource in lieu of CAISO procurement
- CAISO may then procure resource, but only if no LSE procures that particular resource

STAKEHOLDER COMMENTS

Stakeholder Comments on Who Can Apply

- Most stakeholders support allowing any resource to apply for a CPM ROR designation, including resources that are currently under a RA contract

Stakeholder Comments on Attestation

- LSEs believe that attestation conditions need to be strong to prevent abuse of application process
- Resource owners believe that attestations are of questionable value and CAISO does not need to expand its current requirements
- Some LSEs would like current attestation requirements strengthened
- Other LSEs believe current attestation conditions are sufficient

Stakeholder Comments on Timing and Windows

- Some stakeholders support the proposed two application windows of April and November
- Other stakeholders support only the November application window
- Stakeholders that support only the November window do not want CAISO to report any designations prior to November 1
 - Believe reporting any information from April window will unacceptably “front-run” RA procurement process

Stakeholder Comments on Documentation for April Window to Show Resource is Unlikely to receive RA Contract

- Resource owners think 4 examples in straw proposal of documentation that could be submitted in April window to prove resource is not likely to be procured as RA are onerous and unworkable
 - Several LSEs agree with this position
- SCE suggests those 4 examples of documentation are unnecessary if CAISO prices payment at cost of service
- PG&E suggests resource should simply have to demonstrate its cost are above soft-offer cap
 - No other demonstration is needed

Stakeholder Comments on Maintenance Costs

- Some stakeholders do not support CAISO including major maintenance costs in calculation of costs
 - As such costs are difficult to quantify and account for
 - View there is no guarantee LSEs will receive appropriate benefits in a one-year CPM ROR designation

Stakeholder Comments on Reliability Studies

- Stakeholders requested more and clearer information about how CAISO will conduct its reliability studies for the two application windows

Stakeholder Comments on Price Paid for Designation

- Many LSEs believe resource owner should file for a cost-based price and compensation that FERC approves
- Resource owners believe price should be no less than soft offer cap price

Stakeholder Comments on Term and Monthly Payment Amount

- Almost all stakeholders support paying a “balance of year” term
- Almost all stakeholders support monthly payments based on 1/12 of the annual compensation
- One stakeholder suggests seasonal shaping of payment
- Several stakeholders suggest “back pay” for a delay in completing designation

Stakeholder Comments on Selection Criteria When Competing Resources

- Stakeholders support approach in straw proposal for selection criteria that would be used when there are competing resources
- Except for SDG&E, who suggests a random selection method

Stakeholder Comments on Decision to Accept

- Most stakeholders support continuing to have a CPM ROR designation be voluntary
 - Meaning a resource owner can accept or decline a CPM ROR designation

Stakeholder Comments on Resource Retention and Retirement Options

- Some stakeholders have stated they must have more information on the interplay of resource retention and retirement options

CHANGES FROM STRAW PROPOSAL

The revised straw proposal describes 20 changes that have been made from the June 20 straw proposal.

1. Removed requirement that owner must submit application at least 90 days prior to terminating Participating Generator Agreement
2. Clarified that capacity under RA, RMR* contract or other type of CPM procurement may not be paid as CPM ROR at same time
3. Clarified that resource with any part of it contracted for RA is not eligible for that month to receive CPM ROR payment
4. Created terms Type 1, Type 2 and Type 3 CPM ROR Designations to convey different designation types
5. Clarified meaning of resource being “needed” for reliability and candidate for CPM ROR designation: grid cannot be reliably operated without that specific resource in service

* “RMR” means Reliability Must-Run.

20 changes (continued)

6. Revised proposal so that for Type 2 Designations LSEs will have at least 6 months to procure conditionally designated resource
7. Clarified that resource owner must file at FERC an offer price no higher than price submitted in its application
8. Clarified that information submitted in application will be treated as confidential by CAISO
9. Clarified requirements resource must meet for Type 1, Type 2, and Type 3 Designations
10. Clarified application requirement that a resource must have offered its Eligible Capacity into competitive solicitation processes

20 changes (continued)

11. For April window, removed 4 examples of what could be submitted to demonstrate resource not likely to be procured as RA
12. For April window, added condition to be eligible to receive Type 2 Designation must demonstrate costs are above soft offer cap price
13. For April window, added that for Type 2 Designations CAISO must find that resource is uniquely situated such that it is only resource that can meet identified reliability need
14. Clarified assumptions CAISO will make when it performs technical assessments to determine if resource will be needed for reliability
15. Clarified that offer price to be used for selection criteria will be offer price provided in application

20 changes (continued)

16. Modified proposal to provide that Type 1 Designations will have term for balance of RA compliance year in which they occur and Type 2 and Type 3 Designations will have a term of 12 months
17. Clarified how costs will be determined using Annual Fixed Revenue Requirement for RMR Unit
18. Clarified how pricing and payment will work where it takes a period of time for FERC to approve the resource's filed price
19. Explained how cost allocation will work for CPM ROR procurement (existing tariff authority/language)
20. Explained how RA credits will work for CPM ROR procurement (existing tariff authority/language)

REVISED STRAW PROPOSAL

1. Who Can Apply for CPM ROR Designation

- Will clarify tariff to confirm that any resource can apply for CPM ROR designation, including resource that is currently RA
- Capacity under RA contract, RMR contract or another kind of CPM procurement may not be designated as ROR CPM and receive CPM ROR payments at same time
- Resource that is “partial RA,” i.e., has part of its overall capacity contracted for RA in a month, is not eligible for that month to receive a CPM ROR payment

2. Timing of Requests for Designation - Windows

- Two “windows” will be provided each year
 - During first-half of April and first-half of November

Window	Type of Designation	Type of Request
April	Type 1	By non-RA resource for designation for current RA compliance year
	Type 2	By RA resource or non-RA resource for designation for calendar year following current RA compliance year
November	Type 3	By non-RA resource for designation for upcoming RA compliance year

3. Process for Study and Procurement

- Will perform reliability study to determine
 - Whether resource will be needed for reliability purposes, *e.g.*, locational or operational characteristics, by end of calendar year following compliance year in which resource would receive a designation, and
 - No new generation is projected to be in operation during that period that could meet identified reliability need

3. Process ... (continued)

- Post report if there are any resources eligible for CPM ROR
 - Post report no less than 30 days after closing of window indicating reliability need for that resource and proposing designation
 - Describe resources determined to be needed to reliably operate grid and may receive designation because the grid cannot be reliably operated without that specific resource in service
 - Describe time period for which a designation is needed

3. Process ... (continued)

- After posting report, allow no less than 7 days for stakeholders to review and submit comments on report
- Provide opportunity for an LSE to procure capacity from that resource before CAISO can procure it
 - For Type 1 and Type 3 Designations, LSEs will have at least 30 days to procure
 - For Type 2 CPM ROR designations, LSEs will have at least 6 months to procure
- If no LSE procures that resource, CAISO may then procure it as CPM ROR capacity

4. Application Requirements, Timelines and Reliability Studies

- Propose two sets of application requirements

Application Requirement	Window	Type of Designation
1. General requirements	April and November	Type 1 – Application by non-RA resource for designation for current RA compliance year Type 2 – Application by RA resource or non-RA resource for designation for calendar year following current RA compliance year Type 3 – Application by non-RA resource for designation for upcoming RA compliance year
2. Additional requirements	April	Type 2 – Application by RA resource or non-RA resource for designation for calendar year following current RA compliance year

- CAISO will treat information submitted in application as confidential

- Applicant must submit affidavit from executive officer of company that represents
 - Resource attesting that it will be uneconomic to remain in service without a designation, and
 - Decision to retire is definite unless CPM or other CAISO procurement occurs, resource is sold to a non-affiliated entity, or resource receives an annual RA contract
- Applicant must provide offer price that will be binding.
 - Resource must file at FERC offer price that is no higher than price submitted in ROR application

- To be eligible to receive a Type 1 Designation
 - Must find that Scheduling Coordinator for resource offered all Eligible Capacity from resource into all Competitive Solicitation Process (“CSPs”) for current RA year
 - Means year-ahead, month-ahead and intra-month CSPs

4. Application ... (continued)

April Window

- To be eligible to receive a Type 2 conditional designation
 - Applicant must demonstrate its costs are above current CPM soft-offer cap price, currently \$6.31/kW-month (\$75.68/kW-year)
 - Must find resource participated in all applicable RA competitive solicitations, requests for offers, or similar procurement mechanisms conducted by LSEs for such RA compliance year and was not offered annual RA contract consistent with its offer
 - Must find that resource that has applied is uniquely situated such that it is only resource that can meet reliability need - multiple resources cannot meet same need
- To be eligible to receive Type 2 Designation payments
 - If resource is needed for reliability, CAISO can communicate in report that resource is eligible for designation, but any designation is conditional, and resource, if selected in subsequent RA competitive solicitation, request for offers, or similar procurement mechanism conducted by an LSE, must take that contract rather than CPM designation if such contract is offered to resource

Type 1 Designation Scenario - Where Resource is not RA in 2017 and requests 2017 Balance-of-Year Designation

- Resource requests designation for 2017
- CAISO does study
- CAISO finds resource needed for reliability in 2018
- CAISO could designate resource for remaining months of 2017 as bridge during 2017 to get to 2018.
- Timeline (for illustrative purposes)
 - April 1-15: Window open for resource owner to apply
 - May 15: CAISO issues report explaining basis and need for CPM designation and intent to designate
 - May 22: Stakeholder comments on report due
 - June 22: Deadline for LSEs to procure in lieu of CAISO procurement
 - June 23: If not procured by LSEs, CAISO can designate unit as CPM ROR capacity
- CAISO will perform technical assessment to determine if resource needed for reliability purposes, typically for locational or operational characteristics, by end of calendar year 2018
 - Because there are no 2018 year-ahead RA showings available at this time, in study process CAISO will assume that all resources not expected to retire are available

Type 2 Conditional Designation Scenario - Where a Resource, RA or Non-RA in 2017, requests 2018 Designation

- Resource requests designation for 2018
- CAISO does study
- CAISO finds resource to be needed in 2019
- CAISO can indicate its intent to conditionally designate resource for 2018 as a bridge during 2018 to get to 2019, and establish an effective date for procurement of January 1, 2018 (after the CAISO checks to see if any LSE procures the resource in the year-ahead showings for 2018)
- Timeline (for illustrative purposes)
 - April 1-15: Window open for resource owner to apply
 - May 15: CAISO issues report explaining basis and need for CPM designation and intent to designate (will report a conditional designation)
 - June 1: Stakeholder comments on report due
 - December 15: Deadline for LSEs to procure in lieu of CAISO
 - December 18: CAISO can designate resource as CPM ROR capacity
 - January 1: Effective date of Type 2 CPM ROR Designation
- CAISO will perform technical assessments to determine if resource needed for reliability purposes, typically for its locational or operational characteristics, by end of calendar year 2019
 - Because there are no 2019 year-ahead RA showings available at this time, in study process CAISO will assume that all resources not expected to retire will be considered available

4. Application ... (continued) November Window

- Applicant must submit affidavit from executive officer of company that represents
 - Resource attesting that it will be uneconomic to remain in service without a designation, and
 - Decision to retire is definite unless CPM or other CAISO procurement occurs, resource is sold to a non-affiliated entity, or resource receives an annual RA contract
- Applicant must provide offer price that will be binding.
 - Resource must file at FERC offer price that is no higher than price submitted in ROR application
- CAISO must find that resource is not RA for 2018 and needed before end of calendar year 2019

Type 3 Designation Scenario - Where a Resource is not RA in 2018 and requests 2018 Designation

- Resource requests designation for 2018
- CAISO does study
- CAISO finds resource to be needed in 2019
- CAISO can indicate its intent to conditionally designate resource for 2018 as a bridge during 2018 to get to 2019, and establish an effective date for procurement of January 1, 2018 (after CAISO checks to see if any LSE procures resource in year-ahead showings for 2018)
- Timeline (for illustrative purposes)
 - Nov 1-15: Window open for resource to apply
 - Dec 15: CAISO issues report
 - Dec 22: Stakeholder comments on report due
 - Jan 22: Deadline for LSEs to procure in lieu of CAISO
 - Jan 23: CAISO may designate resource via CPM ROR
- CAISO will perform technical assessments to determine if resource needed for reliability purposes, typically for its locational or operational characteristics, by end of calendar year 2019
- Study will be done after CAISO knows through year-ahead RA showings which resources are RA for upcoming RA year
- A resource in this window will be studied only if it is not RA for the upcoming year
- Because there are no 2019 year-ahead RA showings available at this time, in study process CAISO will assume that all resources not expected to retire will be considered available
- If CAISO finds resource to be needed by end of calendar year 2019, then it may issue designation to resource for 2018

5. Selection Criteria when there are Competing Resources

- Will revise tariff to reflect selection criteria specified in sections 43A.4.2.2 and 43A.4.2.3
 - 43A.4.2.2 provides selection criteria in event there are multiple resources seeking a designation at same time but “need” is such that CAISO cannot designate all of the resources
 - Offer price that will be used with regard to Section 43A.4.2.2 will be offer price provided by resource in its CPM ROR application
 - 43A.4.2.3 provides criteria for breaking ties
- The revised straw proposal provides sample tariff language

6. Term and Monthly Payment Amount

- Type 1 Designations will have a term for the balance of the RA compliance year in which they occur
 - For example, if for April window CAISO designates a non-RA resource as ROR CPM on June 30, designation would be effective for 6 remaining months of year
- Type 2 and Type 3 CPM ROR Designations will have a term of 12 months
- Term of any designation may not extend into a subsequent RA compliance year
- Payment for each month of designation will be based on calculation of 1/12 per month of annual compensation

7. Cost Justification

- Resource must make filing at FERC to justify its costs and FERC will decide compensation
- Pricing formula costs are determined using Annual Fixed Revenue Requirement for RMR Unit in Schedule F to pro forma RMR agreement in Appendix G of tariff
- CAISO will use CPM soft offer cap price prior to determination by FERC of resource's CPM ROR price
 - Price subject to refund or surcharge for periods in which soft offer cap price was applied once FERC determines price
 - After FERC determines price CAISO will use price determined by FERC

8. Decision to Accept

- Do not propose to change current tariff provision that allows a resource to accept or decline a CPM ROR designation, i.e., CPM is voluntary

9. Cost Allocation

- Several stakeholders asked about cost allocation for CPM ROR procurement
- Cost allocation for this type of procurement is already included in current CAISO tariff, in section 43A.8.7
- Text from section 43A.8.7 is provided in revised straw proposal
- CAISO is not proposing any changes to that section of tariff

10. RA Credits

- Several stakeholders asked whether RA credits can be obtained for CPM ROR procurement
- RA credit for this type of procurement is already included in current CAISO tariff, in section 43A.9(d)
- Text from section 43A.9(d) is provided in revised straw proposal
- CAISO is not proposing any changes to that section of tariff

NEXT STEPS

Next Steps

- August 28 - Stakeholders submit written comments by close of business
 - Use template provided on website at:
<http://www.caiso.com/Documents/CommentsTemplate-CapacityProcurementMechanismRisk-of-RetirementProcessEnhancementsRevisedStrawProposal.docx>.
 - Submit to mailbox: initiativecomments@caiso.com
- September 11 - Post draft final proposal