



Decision on capacity procurement mechanism risk of retirement process enhancements

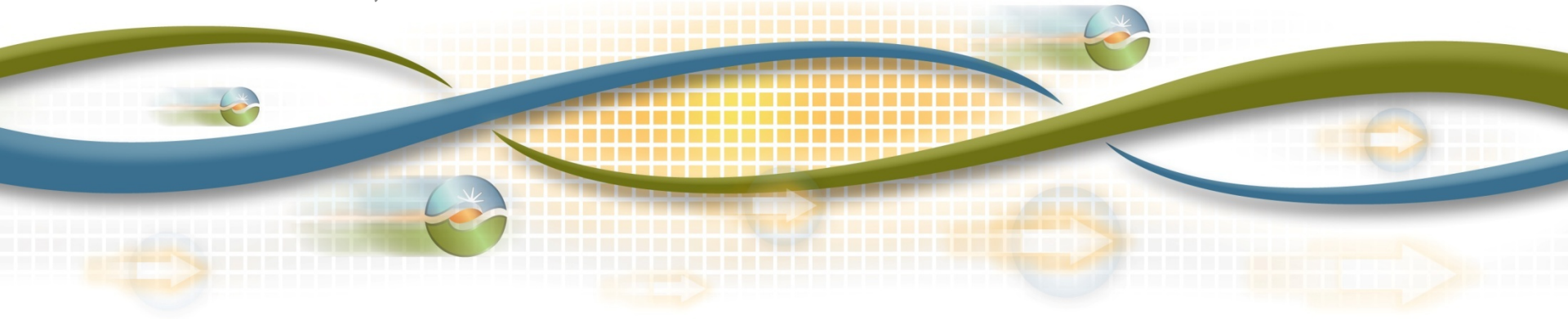
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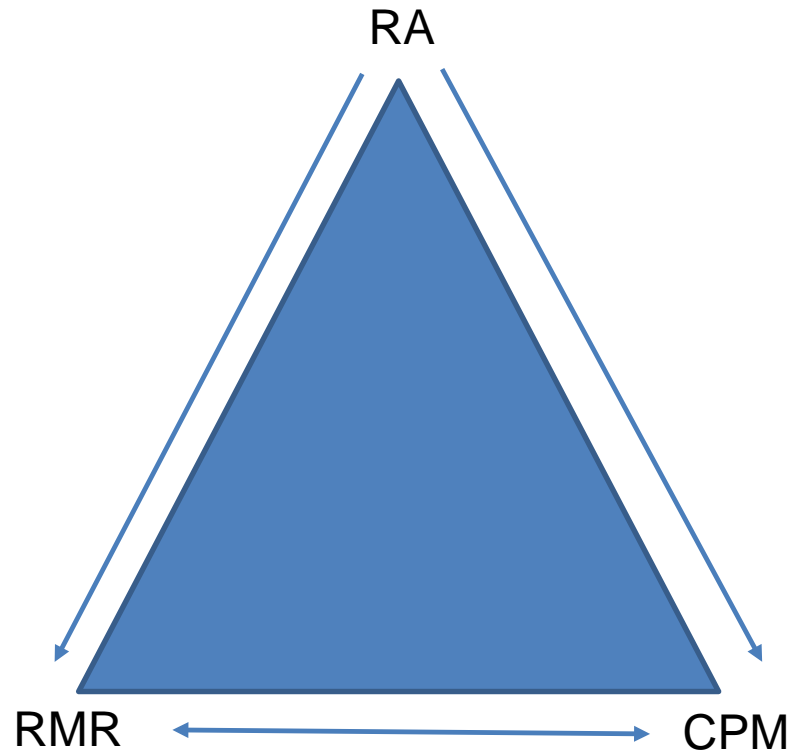
Board of Governors Meeting

General Session

November 2, 2017



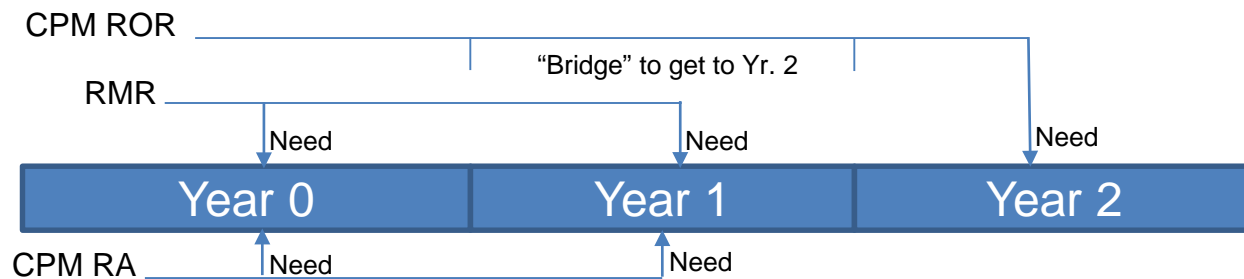
RA, RMR and CPM work together to ensure reliability.



RA = Resource Adequacy Program
RMR = Reliability Must-Run Agreements
CPM = Capacity Procurement Mechanism

The attributes needed affect how capacity is procured.

Element	RMR	CPM RA Showing Deficiency	CPM Risk of Retirement
Reliability Need	Local	Local and system	Local and system
Timing of Need	Near-term (yr. 0, yr. 1)	Near-term (yr. 0, yr. 1)	Longer term (yr. 2)
Timing of Procurement	Any time of year	Year-ahead or month-ahead	Year-ahead
Term of Procurement	Annual contract, with extension provisions	Annual or monthly, maximum of 12 months	Annual or monthly, maximum of 12 months
Compensation	Cost-of-service pricing	Market pricing	Market pricing (propose cost-of-service pricing)
Compensation for Major Capital Expenditures	Yes, and can be over several years	Yes – limited to CPM term	Yes – limited to CPM term
Acceptance of Procurement	Mandatory	Voluntary	Voluntary (propose mandatory)



ROR = Risk of retirement

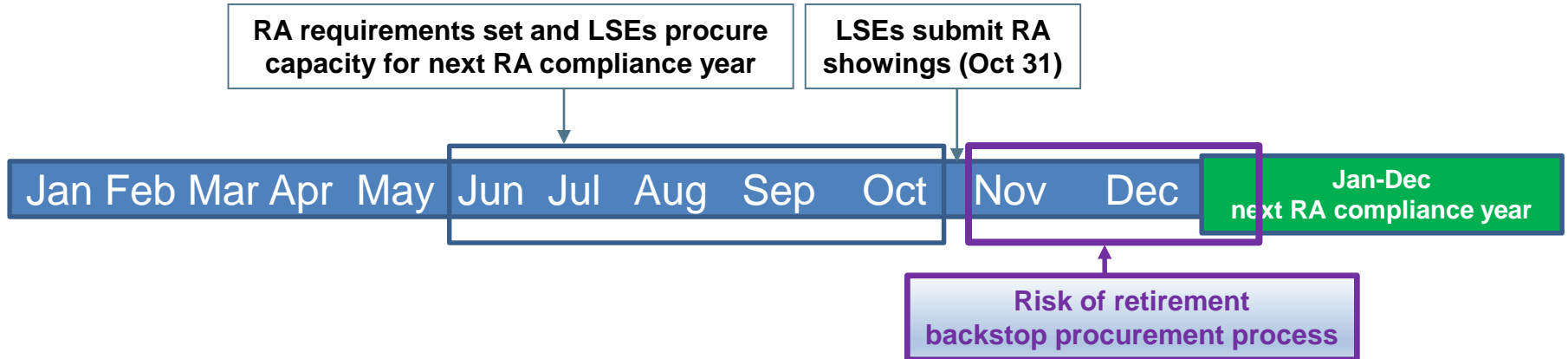
CPM and RMR designations reflect deficiencies in RA framework.

- CPUC's 2019 RA proceeding is an opportunity to address identified issues
- ISO will evaluate potential modifications to RMR construct to better align with current environment

Capacity Procurement Mechanism Risk of Retirement Process Enhancements

The current CPM ROR process does not provide sufficient notice to meet business needs to retire a facility.

- ISO's procurement decisions are not made until after the October 31 year-ahead RA showings are due

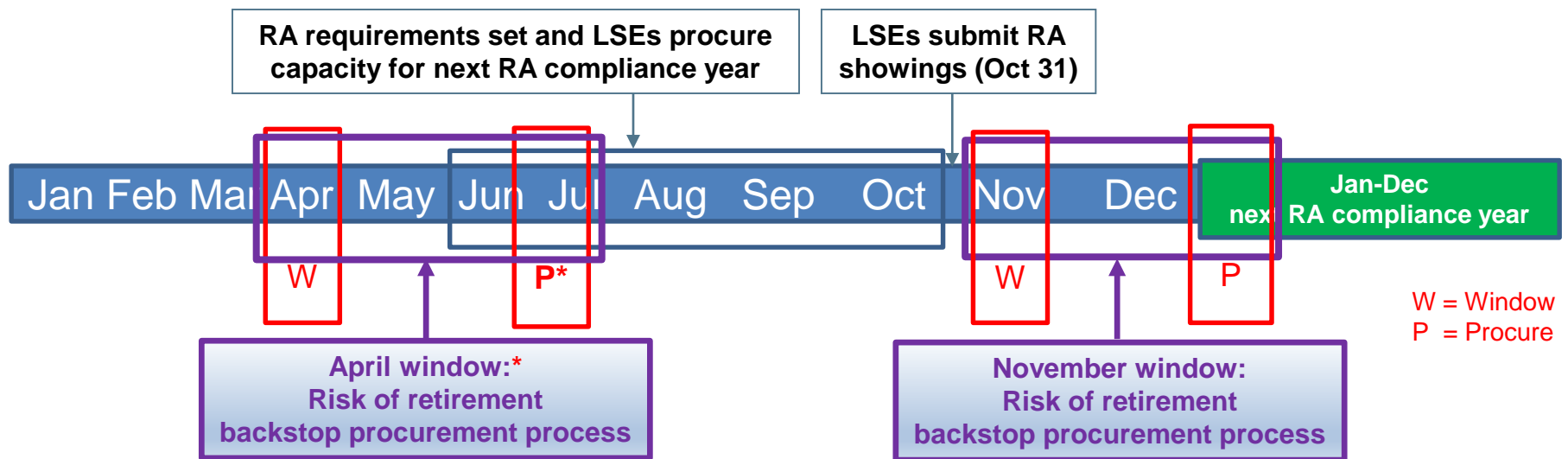


- Resource owners have requested process be improved to allow ISO to indicate its decision earlier in year

LSE = Load serving entity

Propose two windows each year when resources can request retirement assessment: April and November.

- Both RA and non-RA resources may request an assessment during the windows



* Procurement would occur in Jun-Jul if resource is not currently RA, and in Dec-Jan if currently RA

- April window will allow earlier notification of ISO decision that resource owners have requested

Some stakeholders are concerned that creating an April window will have adverse impacts on RA market.

- Proposal includes several provisions to mitigate potential adverse impacts to RA market
 - Must retire resource if not designated
 - Must be only resource that addresses reliability need
 - Must continue to try to become RA by participating in procurement solicitations until procured by ISO
 - Will be procured by ISO only if not procured as RA, or during the RA showing cure process
 - Must accept backstop designation if offered
 - Cost-of-service compensation

Stakeholders generally support the proposal, but there are some concerns.

- CPUC and some LSEs are concerned that April window will “front run” and impact prices in RA market, but resource owners believe early notification is needed for orderly and timely business decisions
- LSEs generally support proposed cost-of-service pricing, but resource owners advocate market-based pricing
- LSEs support having acceptance of a designation be mandatory, but resource owners believe it should remain voluntary

Management recommends the Board approve the capacity procurement mechanism risk of retirement process enhancements proposal.

- Earlier notification and longer “runway” that resource owners have requested
- Clarify existing tiebreaker criteria applies to select from among multiple resources that may seek a designation at same time
- Supports reliable operation of grid through last resort ISO procurement of critically needed resources