Decision on Capacity Procurement Mechanism Enhancements Track 2

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Purpose of capacity procurement mechanism (CPM) enhancements track 2 Initiative

- ISO completed the CPM track 2 initiative to meeting the tariff obligation to open a stakeholder initiative at least every four years to examine the soft offer cap and consider changes
  - The ISO tariff requires the stakeholder process to consider whether the soft offer cap adequately reflects going-forward fixed costs of the reference resource

- ISO intends to separately reexamine our backstop resource adequacy (RA) processes, including potential changes to the structure of the soft offer cap starting in October 2023

Background on CPM

- Often referred to as “backstop” procurement, the CPM is used to address resource adequacy deficiencies and potential reliability concerns
- CPM designations rely on capacity willingly offered to the ISO by scheduling coordinators through annual, monthly and intra-monthly competitive solicitation processes
- In the competitive solicitation processes, scheduling coordinators may offer their capacity at prices up to a soft offer cap, currently set at $6.31/kW-month

Background on the CPM soft offer cap

- The soft offer cap
  - serves as both a safe harbor for resources providing offers as well as a way to mitigate resources from exercising market power
  - was designed to be high enough to cover going-forward fixed costs for marginal resources on the system

- Offers above the soft offer cap must be cost-justified at FERC to recover up to a resource-specific cost of service rate

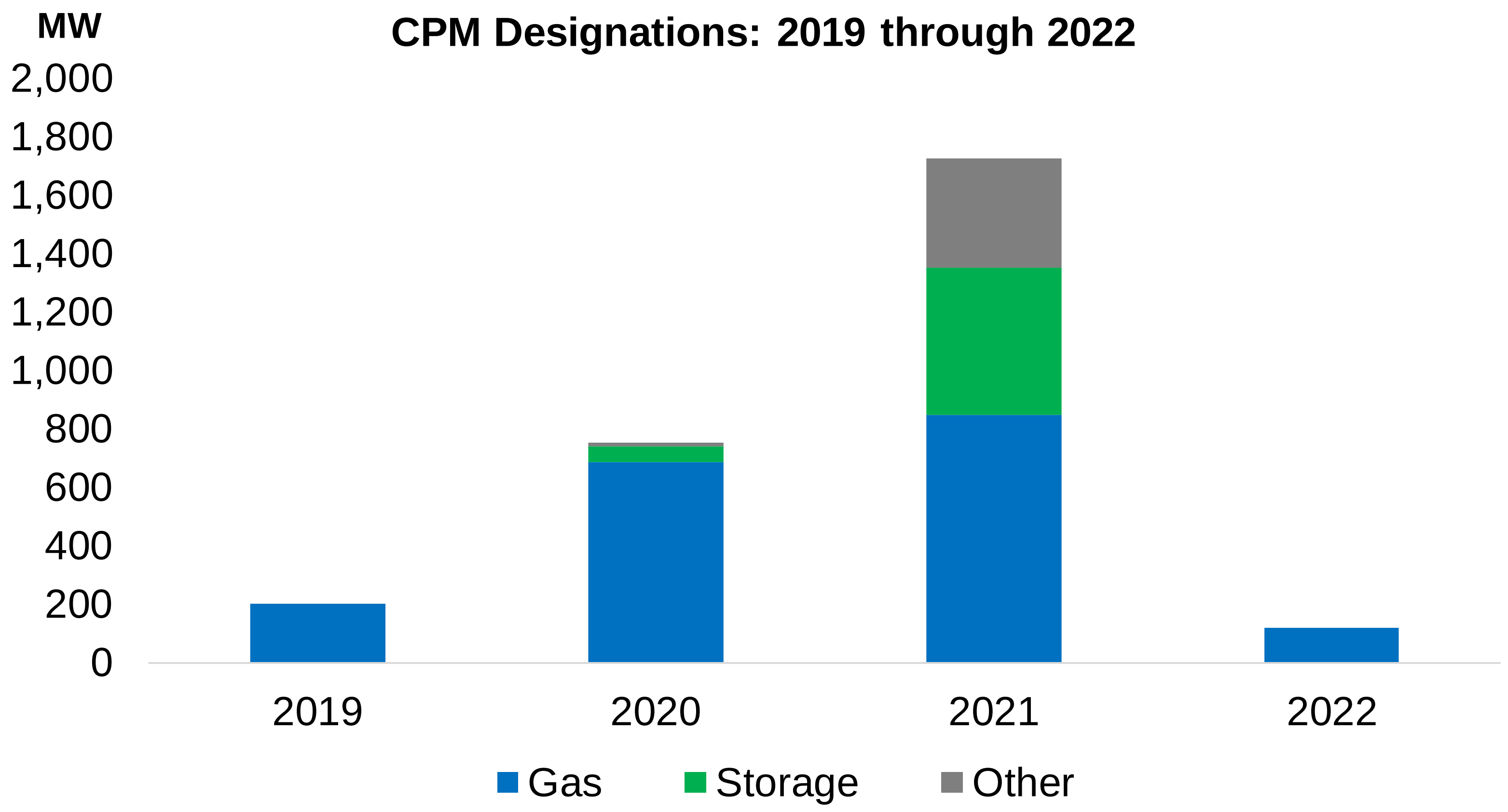
Management recommends the CPM soft offer cap be increased from $6.31/kW-month to $7.34/kW-month

- $7.34/kW-month is based on the ISO tariff-defined methodology for deriving the soft offer cap, using updated California Energy Commission provided combined cycle going-forward fixed costs

- The ISO tariff-defined methodology is still reasonable and relevant until a broader relook of the ISO's RA processes can be completed in an forthcoming stakeholder initiative

- The proposed increase to the soft offer cap accounts for recent inflation and is directionally appropriate, given the increase in bilateral capacity prices over recent years

ISO tariff-defined methodology is still reasonable and relevant: majority of recent CPM designations have been for gas-fired resources



Management recommends the CPM soft offer cap be increased from $6.31/kW-month to $7.34/kW-month

- Stakeholders are supportive of this change
- More holistic changes to the soft offer cap will be considered in subsequent forthcoming resource adequacy policy initiatives