

Memorandum

To: ISO Board of Governors
From: Neil Millar, Vice President of Infrastructure and Operations Planning
Date: September 13, 2023
Re: **Decision on conditional approval to extend existing reliability must-run contracts for 2024**

This memorandum requires ISO Board of Governors action.

EXECUTIVE SUMMARY

Management requests that the ISO Board of Governors grant Management the authority to extend, through calendar year 2024, the reliability must-run contracts for the Dynegy Oakland, LLC (DO) generating units listed in *Attachment 1*.

Total capacity and the number of resources under reliability must-run contracts with the ISO have been significantly reduced since the implementation of the state's resource adequacy program and the addition of new grid facilities. However, reliability must-run contracts remain an important backstop instrument to ensure reliability when other alternatives are not viable.

Management exercises this authority to extend a reliability must-run contract or designate a resource as needed for reliability must-run service under any of the following conditions:

- A load serving entity does not purchase the capacity needed to satisfy local reliability criteria in the *ISO 2024 Local Capacity Technical Analysis* through a resource adequacy contract;
- The load serving entity does purchase the needed capacity under a resource adequacy contract, but Management needs a reliability must-run contract to:
 1. Obtain from the unit a reliability service, such as voltage support, black start or dual fuel capability; or
 2. Mitigate local market power; or

3. Protect availability of a given resource that could be jeopardized or reduced without a reliability must-run contract.
- A resource is otherwise needed to meet local or system reliability service, including voltage support, black start or dual fuel capability and is not under a resource adequacy contract.

Where a reliability must-run contract augments a resource adequacy contract, Management will ensure that any fixed-cost recovery will compensate the unit owner only for the incremental costs of providing reliability must-run services. This will guarantee the owner is not paid twice for its capacity.

Management proposes the following motion:

Moved, that the ISO Board of Governors authorizes Management to extend reliability must-run contracts for the Dynegy Oakland, LLC generating units listed on Attachment 1 of the memorandum dated September 13, 2023, and consistent with the criteria described therein.

DISCUSSION AND ANALYSIS

The Dynegy Oakland, LLC resources are required to meet the 2024 local capacity requirement in the Oakland sub-area of the Bay Area local area as set out in the ISO's 2024 Local Capacity Technical Study, released on April 28, 2023. The sub-area local capacity requirement was determined by the ISO to be 113 MW.¹ Both Oakland units, Units #1 and #3, are required to meet that need. The ISO also expects both units to be needed in 2024 during transmission clearances required for installation of the new transmission upgrades, and they will provide a reliability mitigation in case the new transmission projects are delayed due to unforeseen circumstances. The local need for these remaining Oakland resources is expected to come to an end at the end of 2025, after the Oakland Clean Energy Initiative² is in service.

¹ This requirement for 2024 reflects a significant increase from the 2023 requirements identified in 2002, as the Moraga 115 kV bus upgrade transmission project that was forecast to be online by June 2023 has been delayed beyond June 2024.

² The Oakland Clean Energy Initiative is a combination of substation upgrades, in-front-of-the-meter energy storage, and preferred resources that, together, will eliminate the need for the local capacity requirement for the Oakland Generation Station. The transmission components were approved as part of the 2017-2018 ISO Transmission Plan, available at: http://www.caiso.com/Documents/BoardApproved-2017-2018_Transmission_Plan.pdf in March, 2018. The other components are being pursued by PG&E through CPUC procurement processes.

Management intends to release Greenleaf II Cogen from its RMR contract because the resource has been purchased as a resource adequacy capacity for all of 2024. It continues to be required to meet the 2024 local capacity requirement in the Drum-Rio Oso sub-area of the Sierra local area. The Rio Oso 230/115 kV Transformers project, which will mitigate the reliability need, is scheduled to be operational January-May 2025.

Management notes that no system RMR contracts have been in place since 2022.

If additional resources are found to be needed for reliability must-run service, either to meet local or system needs, Management will seek further Board approval to enter into additional reliability must-run contracts to ensure reliability requirements are met.

Under long-established provisions of the existing *pro forma* reliability must-run contract, by October 1 of any year, the ISO must notify a reliability must-run unit owner that the ISO is exercising its right to extend the existing contract from January 1 through December 31 of the following year. If the contract is not extended by this date, the reliability must-run unit may not be designated again for one full year unless:

- The unit is needed due to the extended outage of another unit or a transmission element not known at the time of the contract expiration; or
- The unit is selected through a competitive process in which the unit owner participated.

The California Public Utilities Commission (CPUC) requires its jurisdictional load serving entities to provide a preliminary resource adequacy showing to the ISO by September 15, 2023, if they entered into a contract with any of the existing reliability must-run units. This information will allow the ISO to potentially avoid an unnecessary extension of a reliability must-run contract. These showings are preliminary because the CPUC jurisdictional load serving entities have until October 31 to submit their final year-ahead resource adequacy showings. These final showings must demonstrate compliance with all CPUC-imposed year-ahead procurement targets (100% local capacity area resources and 90% of the load serving entities' demand forecast and reserve margin for the months of May through September).

Consistent with longstanding practice due to the timing required for annual extensions of reliability must-run contracts, Management requests ISO Board of Governors authorization to extend the term of the contracts for an additional year and delegate to Management the discretion to do so based on review of the preliminary resource adequacy showings and other changes in circumstances. Management will update the

ISO Board of Governors on the results of reliability must-run contract extensions at its November 2023 meeting.

ATTACHMENT 1: 2024 Reliability Must-Run Contract Status

RMR Units Extension Status			
<i>Any Extended RMR Contracts will be effective January 1, 2024, thru December 31, 2024</i>			
<i>Any Released RMR Contracts will be terminated effective Midnight on December 31, 2023</i>			
Owner	Unit	MW	Status
Starwood Energy Group	Greenleaf II Cogen	49.2	Released
Dynergy Oakland, LLC	Oakland, Unit 1	55.0	TBD
	Oakland, Unit 3	55.0	TBD