Flexible Capacity Procurement: Risk of Retirement

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Summary of Guiding Principles

- Focus on ISO's backstop procurement authority
- The need should be well defined and understandable
- Ensure the ISO has access sufficient flexible and local resources to maintain grid reliability
- Mechanism must balance the need to
  - Ensure flexible resources remain viable
  - Minimize cost of the backstop mechanism
  - Minimize the use of any backstop mechanism
- To the extent possible, mechanism should be technology neutral

Determination of Need

- The proposed the Flexible Capacity Risk of Retirement
  - Assesses flexible and local capacity at risk of retirement
  - Secure resources identified as necessary to meet future grid reliability needs
  - Uses prudent planning assumptions to evaluate need for flexible and/or local resources over the next five years
  - Will use an existing reliability criterion such as a one loss of load event in ten year reliability criteria
- ISO must be able to reliably operate the grid with forecasted fleet minus the requesting resource

Resource Eligibility

- Must not have an RA contract for the upcoming compliance year.
  - Resources currently under a Flexible Capacity Risk of Retirement designation may sign partial RA contracts and still be assessed if costs are not covered
- Resource must:
  - Demonstrate that it participated in at least one RA RFO, or
  - Provide sufficient justification why the ISO should evaluate the resource even though it did not participate in a RA RFO

Resource Eligibility

- Resources must submit notification to the ISO of the intent to retire between October 15 and December 31
  - Requests received outside of this window will not be evaluated
- The ISO will notify resources receiving designations by January 15
- Not all requesting resources may be needed
  - the ISO will compile the lowest cost portfolio that ensures adequate resources to maintain system reliability
- Only intertie resources that are either dynamically scheduled or are pseudo-tie resources will be assessed

Resource Compensation

- Resources would receive an annual cost-based payment
- Designations cover a maximum of one year
- The ISO will ensure:

  a. All reasonable costs to <u>mothball for one year and return to service</u> will be covered

  OR

  b) If the cost of mothballing and returning a resource to service exceed the going forward costs, the ISO will cover going forward costs

  - Includes insurance, ad valorem, and fixed O&M costs

Resource Compensation

- ISO will provide minimum revenue guarantee of the lesser of:
  - Mothballing costs
  - Going forward cost
- Costs capped at resource's going forward costs
- Compensation based on evaluation and recommendation of an independent evaluator
- Resources have no performance or must offer obligation
- Resources will not be paid both mothballing and reenergizing costs in consecutive years

Other Conditions

- If a resource signs a partial RA contract:
  - If RA contract revenues exceed the remainder of minimum revenue guarantee – Payments end
  - If RA contract revenues do not exceed the remainder of minimum revenue guarantee – RA revenues count against the minimum revenue guarantee, but remaining costs are covered
- Resources receiving Flexible Capacity Risk of Retirement designations are eligible for CPM procurement and payments
  - CPM payments will not be netted against Flexible Capacity Risk of Retirement payments

Cost Allocation

- Determining the cost causation for flexibility based risk of retirement need is not feasible at this time
- Costs allocated based on load ratio share
- Cost for local area need will be allocated to the LSEs in the TAC area