



Decision on Capacity Procurement Mechanism and Exceptional Dispatch Provisions

Greg Cook

Director, Market and Infrastructure Policy

Board of Governors Meeting

General Session

November 1-2, 2010

Proposal provides extension of ISO backstop authority.

- CPUC and other local regulatory authorities have resource adequacy programs to ensure sufficient capacity is available to maintain reliable grid operation.
- Resource adequacy is not always sufficient to meet operational needs.
 - Requires ISO to have ability to procure backstop capacity for short periods.
- Current backstop provisions expire on March 31, 2011.
 - FERC requirement to file successor provisions no later than December 1, 2010.

Proposal addresses two issues ordered by FERC related to backstop capacity procurement.

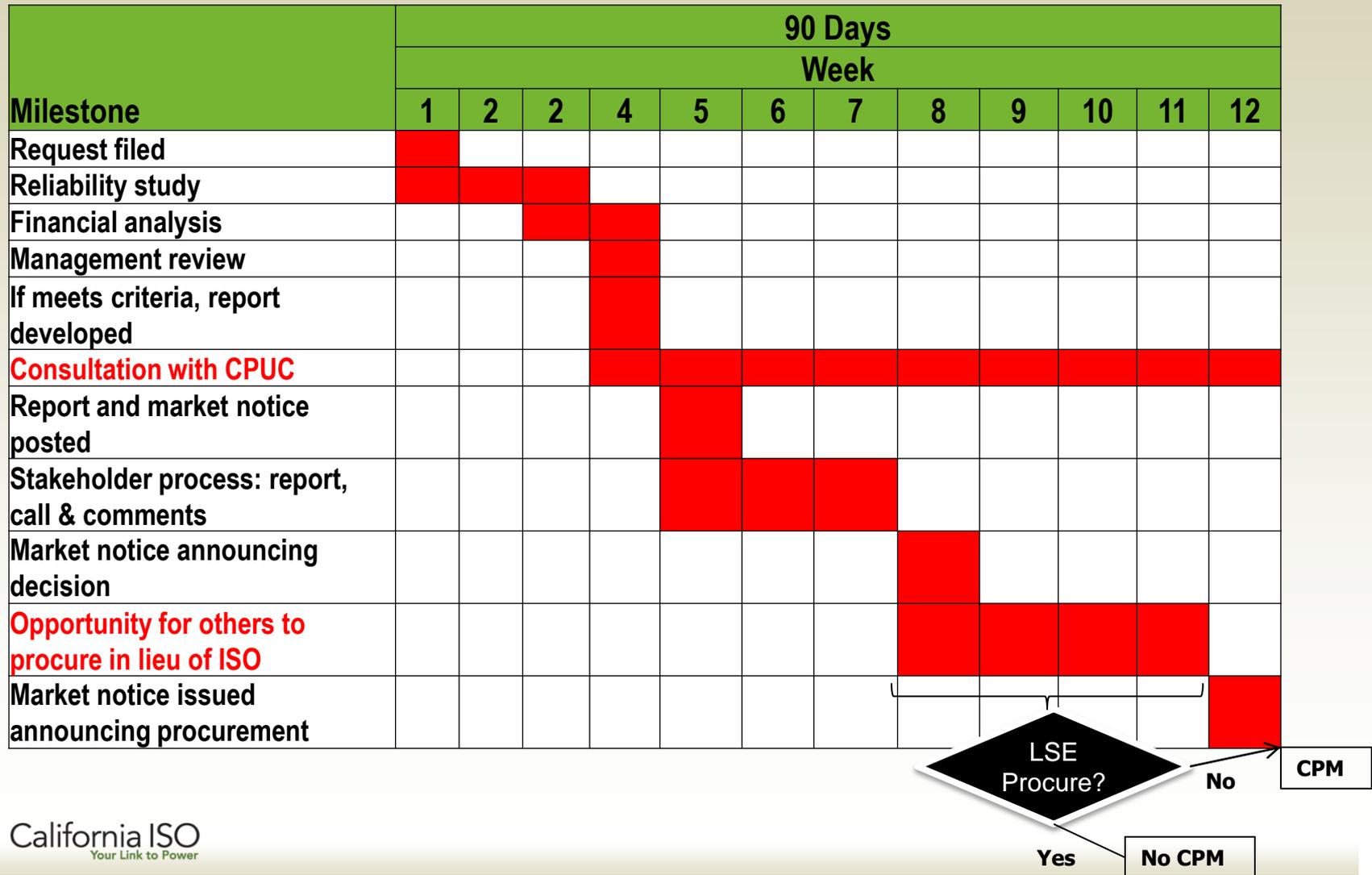
1. A successor mechanism to the current interim capacity procurement mechanism.
 - Backstop capacity procured by the ISO in the year ahead timeframe in instances where LSEs procurement of RA capacity is insufficient, or
 - Within the year to address unexpected conditions.
2. An update to the price paid for and the bid mitigation applicable to exceptional dispatch.
 - Proposal updates price paid for exceptional dispatch to \$55/kW year from \$41/kW year.
 - No change proposed to current exceptional dispatch bid mitigation.

Since inception there have been only 23 instances of backstop capacity procurement at a cost of \$2.7 million. All backstop procurement has been to address unexpected conditions.

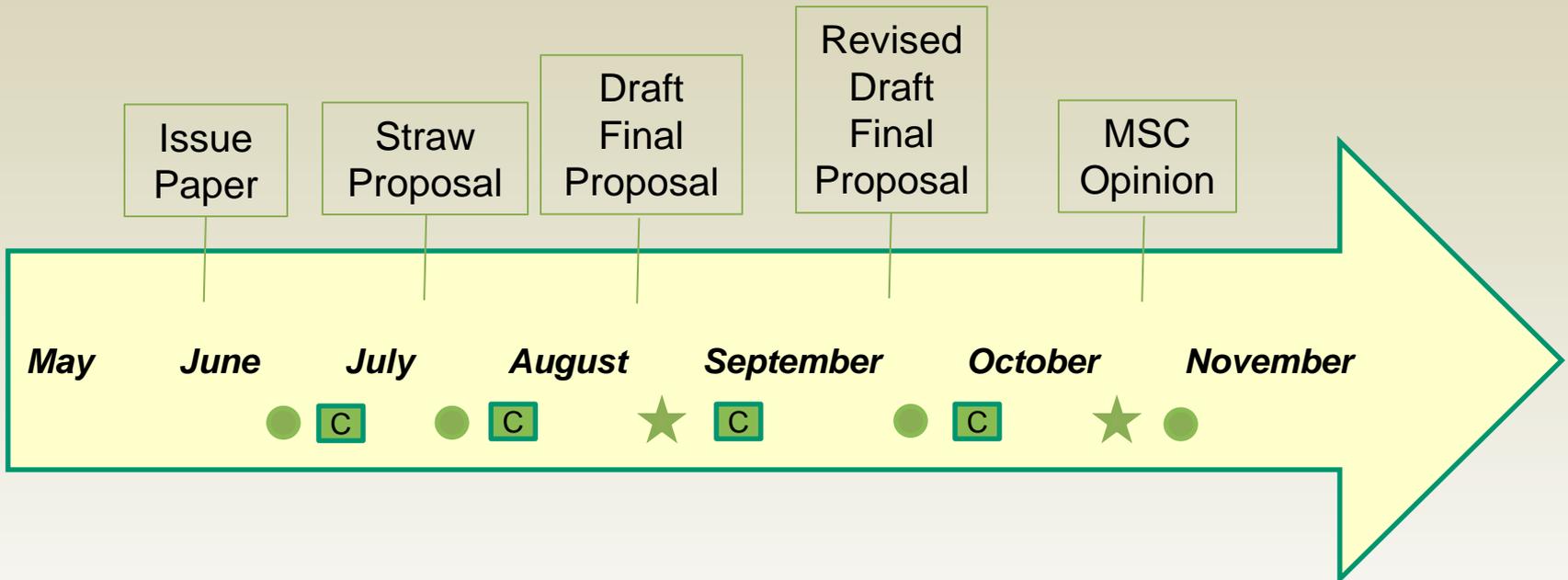
Proposal includes important tools needed to reliably operate the grid – now and in the future.

- Retain provisions of the existing backstop design
 - Procure capacity as result of insufficient LSE procurement or for unexpected conditions.
 - Updated compensation rate based on going forward fixed costs (price changed from \$41/kW-year to \$55/kW-year)
- Enhancements to address future operational challenges
 - Criteria to select capacity from available capacity to obtain most useful operational characteristics.
 - Expand procurement authority to provide a short-term bridge for generating units needed for reliability but are in danger of retirement.

CPM process for capacity needed for reliability but at risk of retirement gives deference to CPUC process first.



The ISO conducted a five-month stakeholder process to explore issues and develop solutions.



- Four stakeholder teleconference calls ●
- Two in-person stakeholder meetings ★
- Four rounds of stakeholder written comments [C]

**Final proposal
balances diverse
stakeholder interests**

Stakeholders generally support the proposal, but concerns remain.

Issue	ISO Response
Lack of sunset date	Will consider revisiting overall design if market conditions change.
Procurement for lower than planned output of resources	Increasing percentage of variable output resources makes it prudent to have this tool.
Procurement for units at risk of retirement	Intended as short-term bridging mechanism and many safeguards built in to proposal.
Compensation rate paid for capacity	Not designed to incent new generation, FERC previously ruled going-forward compensation is just and reasonable, participation is voluntary, and unit owners can file for higher rate.
Determination of paths as non-competitive	New initiative started October 8 to revisit competitive path assessment methodology.

Stakeholder initiative underway to identify operational needs and new market products.

- Conducting studies to identify future operational requirements to integrate increasing amounts of renewable resources.
- Working with stakeholders to develop new products to meet operational needs.
- Coordinating with California Public Utilities Commission in its long-term procurement proceeding to align activities.

Management requests Board approval of the proposal.

- Provides tools needed to meet the challenges of maintaining grid reliability in a changing environment.
- Balances diverse stakeholder interests.
- Complements the state's resource adequacy program.