

Flexible Capacity Procurement: Risk of Retirement

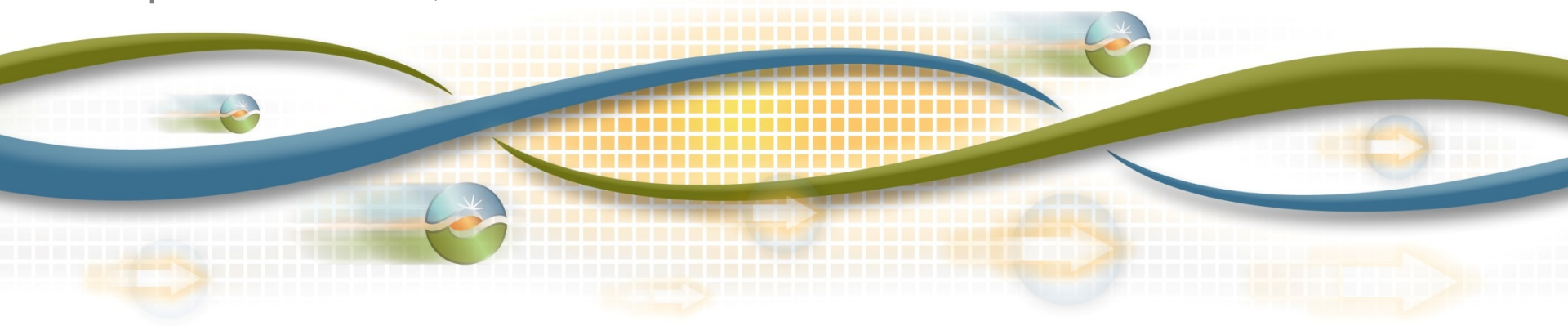
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Board of Governors Meeting

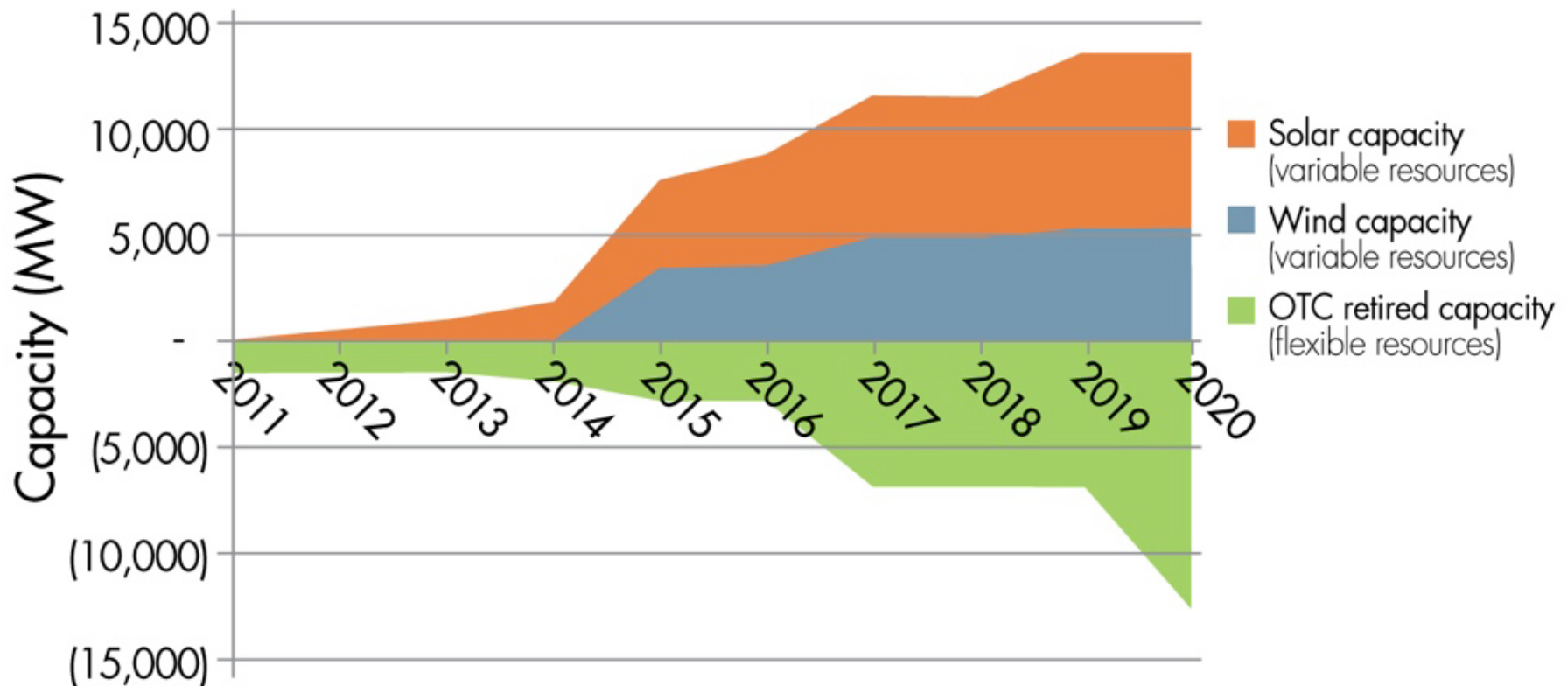
General Session

September 13-14, 2012



Management commenced initiative to address gap in ISO's authority to secure resources at risk of retirement needed for reliability in future years.

Capacity changes



Proposal provides a financial bridge to resources at risk of premature retirement.

- Single year procurement
 - Resource owner has made decision to retire resource
 - ISO concludes resource is needed two to five years in the future
- Not a capacity payment
 - No performance or must-offer requirements in the ISO markets
 - Must actively pursue resource adequacy contracts
- No obligations for resource or ISO at the end of a procurement year

Design developed based on philosophy to incent resources to seek resource adequacy contracts.

- Financial bridge to cover costs until year of need
 - Payment based on resource's going forward costs
- Payments reduced for other revenue
 - 90% of net ISO market revenues
 - Any capacity payments
 - Capacity Procurement Mechanism
 - Bilateral resource adequacy contracts

Costs allocated to load serving entities based on load ratio share.

- Simple load ratio share allocation is appropriate given:
 - ✓ No forward flexible capacity requirement
 - ✓ Backstop mechanism not anticipated to be frequently used
 - ✓ Provides system reliability benefits
 - ✓ Limited duration

In event of a local need, cost will be allocated to the LSEs in the Transmission Access Charge area

Sunset provisions included to recognize need for a primary procurement mechanism

- Flexible capacity procurement backstop provision will sunset provided:
 1. A forward flexible capacity requirement is established, and
 2. The backstop procurement mechanism has not been triggered for a period of two years.

Stakeholder concerns remain on several issues

- Capacity obligation
- Long-term standby option
- Compensation methodology
- Cost allocation
- Needs determination

Management revised proposal to provide for objective and transparent needs determination process with significant opportunities for stakeholder input.

- In the spring of each year, the ISO will provide detailed flexibility needs for the next five years.
- ISO will work with local regulatory authorities to determine the underlying assumptions used in needs assessment.
- Expanded process for making designation to allow more time for stakeholder input and alternative solutions.
- ISO will brief the Board prior to making a designation.

For 2013, special schedule will be used to accommodate FERC Order timeline.

- ISO will produce five year flexibility assessment in first quarter of 2013.
- Resources at risk of retirement will have 30 days after issuance of FERC Order to notify ISO of intent to retire.
- If ISO determines resource is needed for system flexibility, ISO will host a stakeholder meeting 75 days after FERC Order.
- Stakeholders will have 30 days to provide comments and alternative solutions prior to final decision on designation.

Management recommends the Board approve the flexible capacity procurement proposal.

- Addresses current gap in the ISO's backstop procurement authority.
 - Without this provision, risk of losing units needed for future reliable grid operation.
- Provides minimum compensation to keep units financially viable until year of need.
- Maintains incentives to rely on resource adequacy bilateral contracting as primary procurement mechanism.
- Provides significant opportunity for stakeholder input prior to ISO designation.