



Decision on reliability must-run and capacity procurement mechanism enhancements proposal

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Board of Governors Meeting
General Session
March 27, 2019

Capacity is procured through resource adequacy program and ISO Capacity Procurement Mechanism and Reliability Must-Run Agreements backstop provisions to ensure reliable grid operations.

RA program → Primary capacity procurement

CPM → ISO backstop of the RA program
Voluntary procurement

Short-term to address a reliability need:

- * Deficiency in RA showings
- * Exceptional dispatch of non-RA
- * Significant event

RMR → Procure resources for reliability need
Mandatory procurement

Longer-term to address a reliability need

Changes in the industry have created a need to update ISO's backstop capacity procurement authority.

- Meeting state's environmental goals has put conventional resources under financial stress due to declining energy market revenues
- Observed need for increased backstop procurement
- Current provisions need to be updated so critical resources continue to be available for operational needs
- At November 2017 Board meeting Management committed to undertake holistic review of backstop provisions

Management proposes several enhancements to ISO's backstop capacity procurement authority.

1. Clear rules for when RMR or CPM procurement is used
 - CPM used to backstop RA program
 - RMR used to address resources at risk of retirement that are needed for a period of time for reliability
2. Advance notice to stakeholders of upcoming retirements to allow procurement by load serving entities in lieu of ISO procurement

Enhancements (continued).

3. More appropriate CPM pricing above soft-offer cap

- Changing from cost of service to going-forward fixed cost plus 20%
- Aligns with CPM pricing below cap

4. Simplified RMR structure

- All retirement procurement done through RMR tariff
- Single option for compensation: full cost of service
- Use same performance mechanism as is used for other capacity

Enhancements (continued).

5. Formal affidavit notice to retire or mothball to mitigate potential gaming of RMR procurement
6. “Must-offer” obligation for RMR resources
7. Rate of return for RMR that reflects current market conditions
8. Streamlined and automated RMR settlement
9. Flexible Resource Adequacy credits for RMR resources

Stakeholder feedback:

- Agree RMR construct needs to be updated
- Support having one mechanism for all retirement-related backstop procurement (RMR)
- Concerned about resources being able to return to market after RMR service is over - “togglng” issue
- Request stronger requirements to mothball a resource
- Concerned RMR must-offer obligation will suppress prices and cause resources to run unnecessarily
- Concerned with using RAAIM “as is” for RMR

Stakeholder feedback:

- Request RMR compensation be decreased from full cost of service
- Agree price that can be bid for offers above CPM soft offer cap should be modified from current cost of service
- Some request different formula than what ISO proposes for price that can be bid above CPM soft-offer cap - want lower price
- Request a lower CPM price, or alternatively use cost of service pricing, for 12-month CPM designations

Management recommends the Board approve the RMR and CPM enhancements proposal.

- Management believes its proposal will result in efficient backstop capacity procurement provisions for maintaining reliable grid operations
- Provides needed updates to backstop provisions
 - Clarifies and streamlines procurement processes
 - Updates compensation methodologies
 - Full cost of service compensation is consistent with FERC precedent given RMR designation is mandatory
 - Existing compensation rules address potential toggling between being RMR resource and market resource