

**Draft Final Proposal for**

**Interim, Manual Process to**

**Allow One-for-Many Substitution of**

**RA Resources**

**December 23, 2013**

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# Introduction

Section 40.9 of the ISO tariff contains availability standards for resource adequacy (“RA”) resources and provides for potential non-availability charges and availability incentive payments to those resources based on their availability relative to the standards. Scheduling coordinators for RA resources on forced outages may provide substitute capacity for the unavailable capacity in order to avoid a potential availability shortfall resulting from the forced outage. System limitations prohibit scheduling coordinators from using a single resource to substitute for more than one RA resource on outage. The ISO tariff also does not specify the conditions under which such scheduling coordinators may substitute for more than one resource RA resource outage. Stakeholders have requested that this ability be provided. The ISO tariff also does not specify the conditions under which resources may use several resources to substitute for a single resource outage, but because the system permitted such flexibility, scheduling coordinators are currently able to do so.

The ISO does not object to allowing stakeholders to use a single resource to substitute for multiple RA resources on outage, as long as this can be done in a manner that ensures the ISO will continue to have RA capacity available so reliability is not compromised. The ISO intends to implement an automated process in the Fall of 2014 through which scheduling coordinators can substitute non-RA capacity from one resource for multiple RA resources on a forced outage or de-rate.

Based on stakeholder requests, the ISO is developing a manual *one-for-many* substitution process as an interim measure until the automated functionality is deployed. The manual process will include the ability to use one resource to substitute for multiple RA resource outages. As discussed further below, the interim manual process will include certain limiting conditions to ensure that the workload is feasible for the ISO to perform on a manual basis without compromising the ability to account for resource adequacy capacity reliably. These conditions may not apply with the adoption of the automated functionality later in 2014.

After posting this draft final proposal and draft tariff language, the ISO will conduct a stakeholder conference call on January 10, 2014 to discuss the proposal and answer stakeholder questions. Stakeholders may submit comments by January 3, 2014 and further comments on January 17, 2014. Since this proposal is not a change in policy, the ISO does not need to seek ISO board approval for this initiative. The ISO plans to file the tariff changes at FERC by the end of January, and implementation of the manual process is intended to begin on trading day April 1, 2014.

# Background

The ISO implemented the standard capacity product availability calculation in 2010. The availability calculation was designed to charge RA resources available less than the availability benchmark, and to pay those funds to RA resources with availability above the benchmark. Tariff Section 40.9.4.2.2 affords RA resources the opportunity to avoid the potential non-availability charges when they experience forced outages that would impact their availability calculation, by providing substitute capacity under specific conditions. The tariff and Business Process Manual allow scheduling coordinators to use several resources to substitute for a single resource on outage, but because of limitations in the systems used by market participants to report outages and substitutions, scheduling coordinators have not been able to use a single resource to substitute for more than one RA resource on outage. Moreover, the ISO tariff does not contain the conditions under which this flexibility can be provided reliably. Market participants have indicated to the ISO that the ability to use a single resource to substitute for multiple RA resources on outages would be useful.

The purpose and intent of the RA program is to ensure that the ISO has available sufficient resources where and when needed to meet the operational and reliability needs of the grid. RA resources have a must offer obligation, which ensures that there are sufficient resources in the day-ahead and real-time markets to reliably operate the grid. The RA requirements include both system and local capacity requirements. Because of the importance of, and need for, RA capacity, the tariff allows for the substitution of non-RA capacity for an RA resource on a forced outage to mitigate the impact of the forced outage. The substitutions must be approved by the CAISO in its reasonable discretion.

In addition to ensuring that the substitute resources meet the minimum conditions described in the tariff, the ISO must also ensure that the capacity being requested to be used for substitution has not already been designated as RA capacity, RA substitute capacity , regulatory must run capacity or capacity procurement mechanism capacity. The systems that the ISO has had in place to process RA information and outage requests has not been able to automate all of this process.

In response to stakeholder requests, the ISO has begun work on the changes required to allow the automated processing of one-for-many substitution requests. The ISO currently anticipates that this functionality can be implemented in Fall 2014. This will address the stakeholder concerns at that time, but stakeholders have indicated that they will potentially experience significant costs until the automated solution is available. In this initiative, the ISO is proposing to institute an interim manual process to allow non-RA resources, under specific conditions, to substitute for one or two RA resources on outages. The ISO believes that with appropriate limits, necessary because of the manual process, it can offer market participants this improved functionality, and that this should significantly reduce the potential cost exposure about which market participants are concerned.

# Scope of Initiative and Plan for Stakeholder Engagement

The proposed schedule for stakeholder engagement and implementation is listed below.

|  |  |
| --- | --- |
| **Date** | **Event** |
| December 23, 2013 | Draft Proposal/Tariff Language Posted |
| January 3, 2014 | Stakeholder Comments Due |
| January 10, 2014 | Stakeholder Call   |
| January 17, 2014 | Stakeholder Comments Due |
| End of January | FERC Filing  |
| April1, 2014 Trade Day | Implementation   |

# ISO’s Manual Process Proposal

The ISO is responsible for the reliable operation of the electric grid. The RA program contributes to the reliability of the grid by ensuring that sufficient resources are available to the ISO’s day-ahead and real-time markets, and through the local RA capacity requirements, that sufficient resources are available in constrained areas.

The standard capacity product availability calculation is designed to provide an incentive for resources to make sure their capacity is available to ISO markets. Providing substitute capacity for an RA resource on a forced outage allows market participants to avoid any potential penalties from the availability mechanism, while ensuring that the RA operational functionality available to the ISO is not compromised. However, since forced outages occur with no more than three days of advance notice, the ISO does not have sufficient time to consider how proposed substitute capacity meets the reliability needs of the ISO. Often, it is the ISO’s real time operators who must decide whether to approve the substitution.

As an enhancement to the existing process, the ISO is developing a manual process to allow market participants to use a single resource to substitute for more than one RA resource on outage. In order to ensure that this manual process does not create potential reliability risks, the manual process must include specific rules and limitations. These rules will allow the ISO to make sure that resources that are used as substitute capacity are not allowed to substitute more than their available non-RA capacity, and that this process does not impose burdens on the real time operators of the grid.

The process that the ISO is proposing is:

* The first substitution by a resource will continue to be handled through the existing automated systems.

For situations where a substitute resource has not already been used to substitute for an RA resource the process would be exactly as it is today. Market participants would use the existing systems to submit their requests, and these would be processed just as today.

* The manual process will be limited to a second substitution from the same resource.

The manual process will ensure the resource has non-RA capacity available and that this capacity has not already been used in a prior substitution. In order to make this a manageable task, the ISO proposes that a substitute resource can substitute for to a maximum of two RA resources on forced outage for this interim manual process.

* The second substitution must be pre-registered with the ISO

In order to limit the amount of manual processing work that must be done when a second substitution request is received by the ISO, any potential second substitution must be pre-registered with the ISO. This pre-registration is in addition to the pre-qualification requirement in the tariff for the substitution of local RA resources. This will require that the scheduling coordinators for both the RA resource on a forced outage and its substitute resource provide sufficient information for the ISO to determine that the substitution meets the requirements for substitution in the tariff. The ISO will issue a market notice to advise market participants of the timeline to submit their requests for pre-registration, and will provide an opportunity to update or request additional pre-registration on a quarterly basis.

* Any second substitution would require additional time for the ISO to manually process.

Because of the manual nature of the approval process for second substitution requests, these requests will require additional time for the ISO to process. Second substitution requests should be requested by an email to the ISO. The ISO will verify the eligibility of the substitution and reflect it in ISO systems within five business days. If the substitution period begins before verification is received, the substitute resource may begin bidding into the ISO markets before the response is received so that its availability can be taken into account in the availability calculations for the RA resource on outage, assuming the substitution is approved.

The ISO will include these conditions in the tariff to establish clear terms and conditions under which one-for-many substitutions will be permitted. Draft tariff language is posted in conjunction with this proposal.

Further details about the approval process for second substitution requests will be developed and provided in an update to the business practice manual.

# Next Steps

The ISO will discuss this proposal/tariff language with stakeholders during a conference call to be held on January 10, 2014. Stakeholders should submit written comments by January 6, 2014 and submit them to One-for-Many@caiso.com. Additional comments, after the stakeholder meeting, will also be accepted by January 17, 2014.