



Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements

Straw Proposal

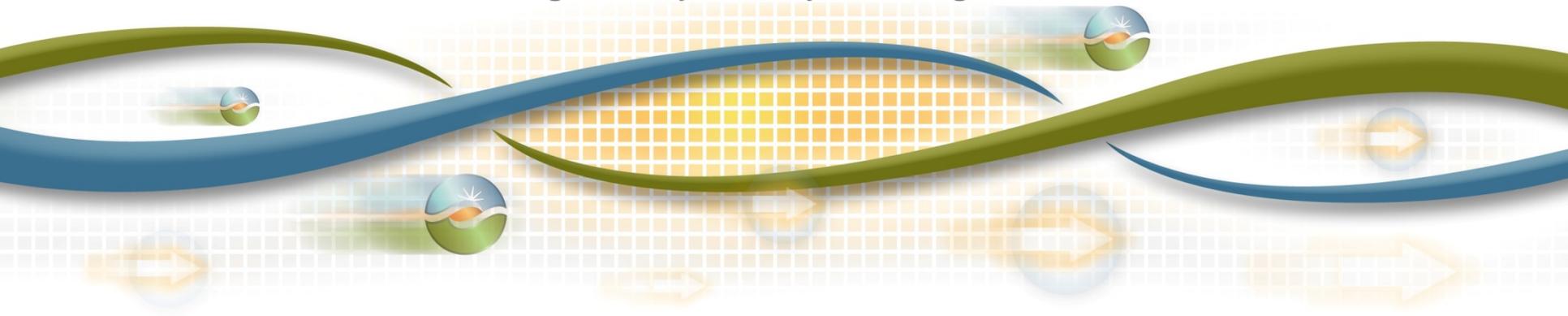
Stakeholder Call

June 27, 2017

9:00 a.m.–12:00 p.m. Pacific Time

Keith Johnson

Infrastructure and Regulatory Policy Manager



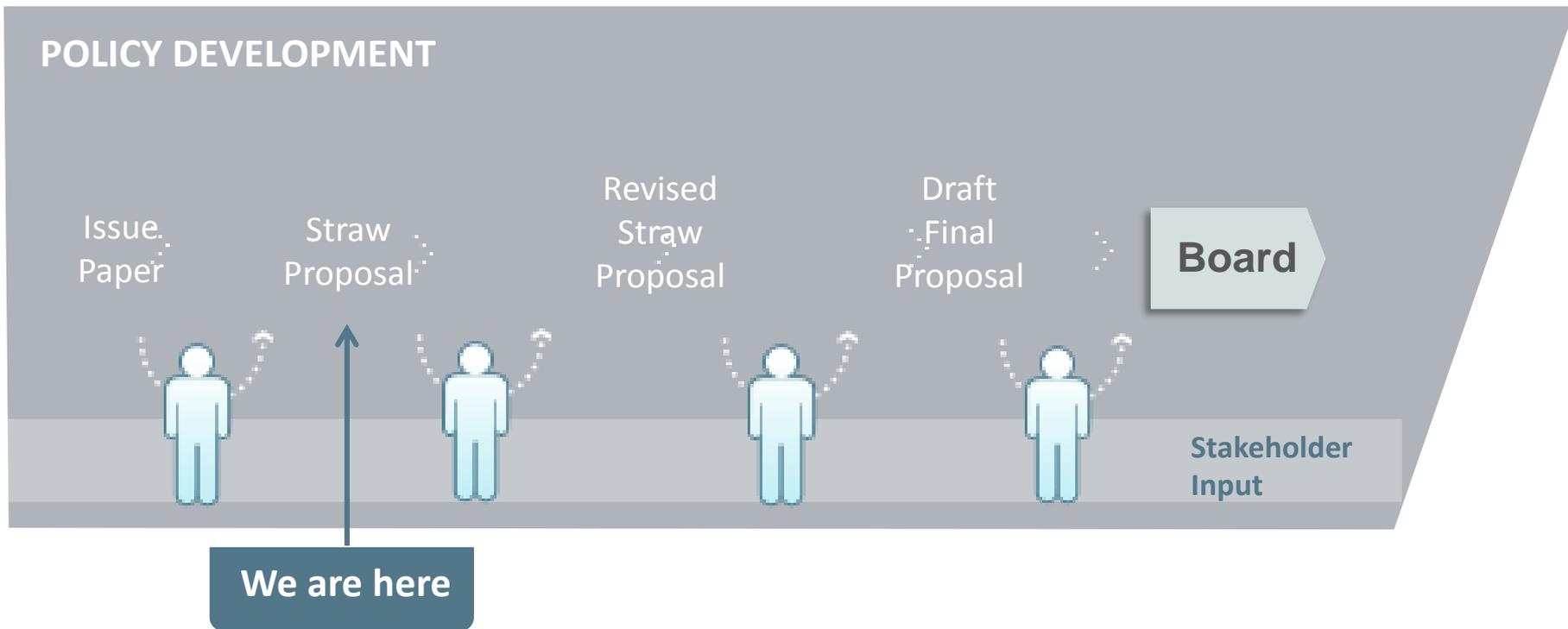
Agenda

Time	Item	Speaker
9:00-9:15	Plan for Stakeholder Engagement	Jody Cross
9:15-9:45	Background and Scope	Keith Johnson
9:45-10:00	Stakeholder Comments	
10:00-11:50	Straw Proposal	Keith Johnson
11:50-12:00	Next Steps	Jody Cross

PLAN FOR STAKEHOLDER ENGAGEMENT

Stakeholder Process

Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements



The plan is to present a proposal to the CAISO Board for approval on November 1-2, 2017.

- To facilitate development of the straw proposal, CAISO held two stakeholder working group meetings
 - First meeting held on May 18 - focused on needs and issues
 - Second meeting held on May 25 - focused on potential enhancements
 - Stakeholders and CAISO discussed ideas, concerns and potential enhancements

Stakeholder Process Schedule

Capacity Procurement Mechanism Risk-of-Retirement Process Enhancements

Document	Date	Milestone
Issue Paper	May 10	Post issue paper
	May 18	Hold stakeholder working group meeting #1
	May 25	Hold stakeholder working group meeting #2
	June 1	Stakeholder written comments due
Straw Proposal	June 20	Post straw proposal
	June 27	Hold stakeholder call
	July 12	Stakeholder written comments due
Revised Straw Proposal	August 8	Post revised straw proposal
	August 15	Hold stakeholder call
	August 28	Stakeholder written comments due
Draft Final Proposal	September 12	Post draft final proposal
	September 19	Hold stakeholder call
	October 3	Stakeholder written comments due
Final Proposal	November 1-2	Present for approval at Board meeting



BACKGROUND AND SCOPE

The CAISO is authorized to use its backstop procurement authority in four situations.

1. Insufficient local, system or flexible resource adequacy (“RA”) capacity in year-ahead or month-ahead RA showings
2. “Significant Event” occurs on grid
3. Reliability/operational need for Exceptional Dispatch
4. Capacity needed for future year is at risk of retirement (“ROR”)

Resource owners have requested enhancements to CAISO's process to procure resources at risk of retirement.

- Concerned that if resource is currently under a RA contract, but not likely to be procured as RA for next year, cannot apply for unit to be procured under CAISO's backstop procurement mechanism until after October 31 of current year*
 - Believe this condition results in insufficient time to make important business decisions
 - Want longer “runway” to make decisions

* CAISO's backstop procurement authority for risk-of-retirement is in Capacity Procurement Mechanism (“CPM”) tariff, section 43A.2

Scope of initiative is limited – CAISO is not redesigning the major features of the backstop mechanism.

- Will explore whether application and process can be improved and analysis can take place prior to October 31 – thus speeding up the process
- Need provisions to address situation where multiple resources may seek backstop designation at same time but “need” is such that CAISO cannot designate all of the resources

The key risk-of-retirement process steps are listed below.*

- If resource is not under RA contract, it can apply at any time for designation
- If resource is currently under RA contract, it has to wait until it will no longer be RA to apply for designation
- CAISO must conduct study to determine that resource is needed in subsequent RA year
- If conditions are met, CAISO must
 - Post report and allow no less than 7 days for review and comments
 - Allow at least 30 days for LSE to procure capacity from that resource
- CAISO may procure only if no LSE procures that particular resource

* The entire process could take as much as 3 months from the date of request until procurement

Resource must submit an application requesting backstop procurement.

- Must submit the following, at least 180 days prior to terminating resource's Participating Generator Agreement
 - Request for designation, including offer price and affidavit of executive officer
 - Supporting information that attests it will be uneconomic for resource to remain in service and decision to retire is definite unless CPM procurement occurs
- Must be able to demonstrate that all eligible capacity from resource has been offered into CPM competitive solicitation process for current RA year

STAKEHOLDER COMMENTS

Stakeholder Comments on Scope of Initiative

- Support making modest enhancements to existing tariff
- Concerned that moving the date back when a resource could be notified of its need could inappropriately “front-run” RA procurement process
- Scope should include retirement process, RA program design, and Reliability Must-Run (“RMR”) process
- Should combine this initiative with Temporary Shutdown of Resource Operations initiative
- Should address problem of insufficient revenue streams rather than tweak existing backstop rules

Stakeholder Comments on Specific Issues

- Initiative should be coordinated with several other ongoing initiatives rather than worked in isolation
- Existing tariff language should be used to extent possible to establish a selection process
- Affidavit should continue to play a serious role in the application process
- Support current requirement that only resources that are not under a RA contract can request a designation
- CAISO should consider terminating this initiative as resources may skip CPM process and seek RMR contracts instead

Stakeholder Comments on Potential Enhancements

- See value in clustering retirement requests through application “windows” during year
- Resource should not be informed of study results until after all aspects of RA procurement process are done
- Request information on type of assessment that would be performed
- It is reasonable to use existing selection criteria
- If an attestation is required, it should be modified to allow for reasonable consideration of future conditions
- Not opposed to revising current attestation requirements to encompass certain contingency situations

STRAW PROPOSAL

1. Who Can Apply for CPM ROR Designation

- Will clarify tariff
 - Any resource, including resource that is currently RA, can apply for designation
 - Capacity under RA contract may not be designated and receive CPM payments at same time it is RA

Example

- Resource is RA in 2017 and seeks a CPM ROR designation for 2018
 - Assess reliability need for resource in 2019
 - If resource is needed for reliability in 2019, CAISO could designate resource as CPM for 2018 - provide “bridge” to 2019

2. Timing of Application for Designation

- Two “windows” will be provided
 - First-half of April and first-half of November
- Will perform study
- If a resource is eligible for designation, will post report no less than 30 days after closing of window indicating
 - Reliability need for that resource
 - Propose a CPM designation
- Will allow no less than 7 days for stakeholders to review and submit comments on report
- Will allow at least 30 days for LSE to procure capacity from that resource before CAISO could procure it

Example of timeline for April Window (if it were in place for 2017)

There are two possible designation scenarios during April window

1. If resource is not RA in 2017
 - If found to be needed in 2018, could designate resource for remaining months of 2017
2. If resource is currently RA in 2017
 - If found to be needed in 2019 can indicate intent to designate resource for 2018 and can formally designate resource in January 2018

Example of timeline for April Window (continued)

- April 1-15: Window open for resource to apply
- May 15: CAISO issues report explaining basis and need for CPM designation and intent to designate
- May 22: Stakeholder comments on report due
- June 22: If needed ROR unit is not RA, deadline for LSEs to procure in lieu of CAISO procurement
- June 23:
 - If needed unit is not RA and not procured by LSEs, CAISO can designate unit
 - If needed unit is RA, CAISO can “conditionally” designate resource
- December 15: If needed unit is RA, deadline for LSEs to procure in lieu of CAISO
- January 1: Effective date of designation for unit that is RA in 2017

Example of timeline for November Window (if it were in place for 2017)

- Nov 1-15: Window open for resource to apply
- Dec 15: CAISO issues report
- Dec 22: Stakeholder comments on report due
- Jan 22: Deadline for LSEs to procure in lieu of CAISO
- Jan 23: CAISO may designate resource via CPM - resource must not be RA for 2018 and must be needed before end of calendar year 2019

3. Application Requirements

- Resource owner must submit application at least 90 days prior to terminating the resource's Participating Generator Agreement
 - Change from current 180 days requirement
- Two sets of application requirements
 - General requirements applicable to all requests for designation
 - Additional requirements applicable to resource in April window seeking designation for upcoming RA year

General Requirements

Applicable to All Applications for Designation

- Affidavit from executive officer attesting that
 - It will be uneconomic for resource to remain in service without a designation
 - Resource has offered into all applicable competitive solicitation processes for current and next RA year (CAISO CPM auctions and RFPs and RFOs issued by LSEs)
 - Decision to retire is definite unless designation occurs
- New provisions will be added to state that if not designated under CPM resource need not retire if
 - Resource is subsequently sold to a non-affiliated entity
 - Resource receives RA contract
 - Resource is procured by CAISO
- Offer price

Additional Requirements

April Window for Designation for Upcoming RA Year

- Required to show resource is unlikely to receive annual RA contract for upcoming RA year

- Can show the following, among other things
 1. Demonstrate that costs are high compared to other RA resources with which it is competing for RA contracts
 - At a minimum, submit cost information showing their Annual Fixed Revenue Requirement consistent with Schedule F of RMR agreement and tariff section 43.A.4.1.1.1); or
 2. Attest that major maintenance is required and that absent RA contract or designation resource will not undertake such maintenance and such maintenance will increase its costs to a level that will make it unlikely to receive a RA contract
 - And show it will not be able to recover costs of such maintenance through CAISO's major maintenance adder; or

Additional Requirements (continued)

- Can show the following, among other things (continued)
 3. Provide documentation from LSE with which it currently has annual contract that LSE will not be procuring resource for upcoming RA; or
 4. Provide documentation from LSEs
 - That they are not interested in procuring resource for upcoming RA year
 - Resource is not eligible for any RFOs that they plan to conduct or are conducting, or
 - LSEs will not be conducting any RFOs that apply to resource

3. Application Requirements (continued)

- Will use cost information to assess whether it is unlikely that resource would be procured as RA for upcoming RA year
- Cost information will assist in determining whether RA market might be adversely impacted if CAISO were to conditionally designate resource for upcoming RA year in its April window analysis
- If resource is needed for reliability, will be able to communicate in report that resource is eligible for designation, but any designation is conditional and if resource is selected in CPM auction or LSE RFP or RFO it must take that contract rather than designation if such contract is offered

4. Selection Criteria when there are Competing Resources

- Will revise tariff to reflect selection criteria specified in sections 43A.4.2.2 and 43A.4.2.3
 - 43A.4.2.2 provides selection criteria in event there are multiple resources seeking a designation at same time but “need” is such that CAISO cannot designate all of the resources
 - 43A.4.2.3 provides criteria for breaking ties

5. Term and Monthly Payment Amount

- Will clarify tariff
 - Designation will be paid based on a “balance of the year” concept
 - Payment for each month of designation will be based on a calculation of 1/12 per month of annual compensation amount
 - CPM resources will not receive CPM payments for capacity that is shown as RA in a given month

6. Cost Justification

- The intent is for CPM ROR payments to be cost-based
- To be paid for an awarded CPM ROR, resource must make filing at FERC to justify its costs and FERC will decide level of compensation
 - Process and pricing formula is similar to existing CPM cost justification tariff provisions
 - CPM tariff's more general soft offer cap price will not be available to a resource seeking CPM ROR designation

7. Decision to Accept

- Do not propose to change current tariff provision that allows a resource to accept or decline a CPM ROR designation, i.e., CPM is voluntary

NEXT STEPS

Next Steps

- July 12 - Stakeholders submit written comments by close of business
 - Use template provided on website at: [Comments Template](#)
 - Submit to mailbox: initiativecomments@caiso.com
- August 8 - Post revised straw proposal