



# Capacity Procurement Mechanism Soft-Offer Cap – *Issue Paper*

Stakeholder Call

June 17, 2019

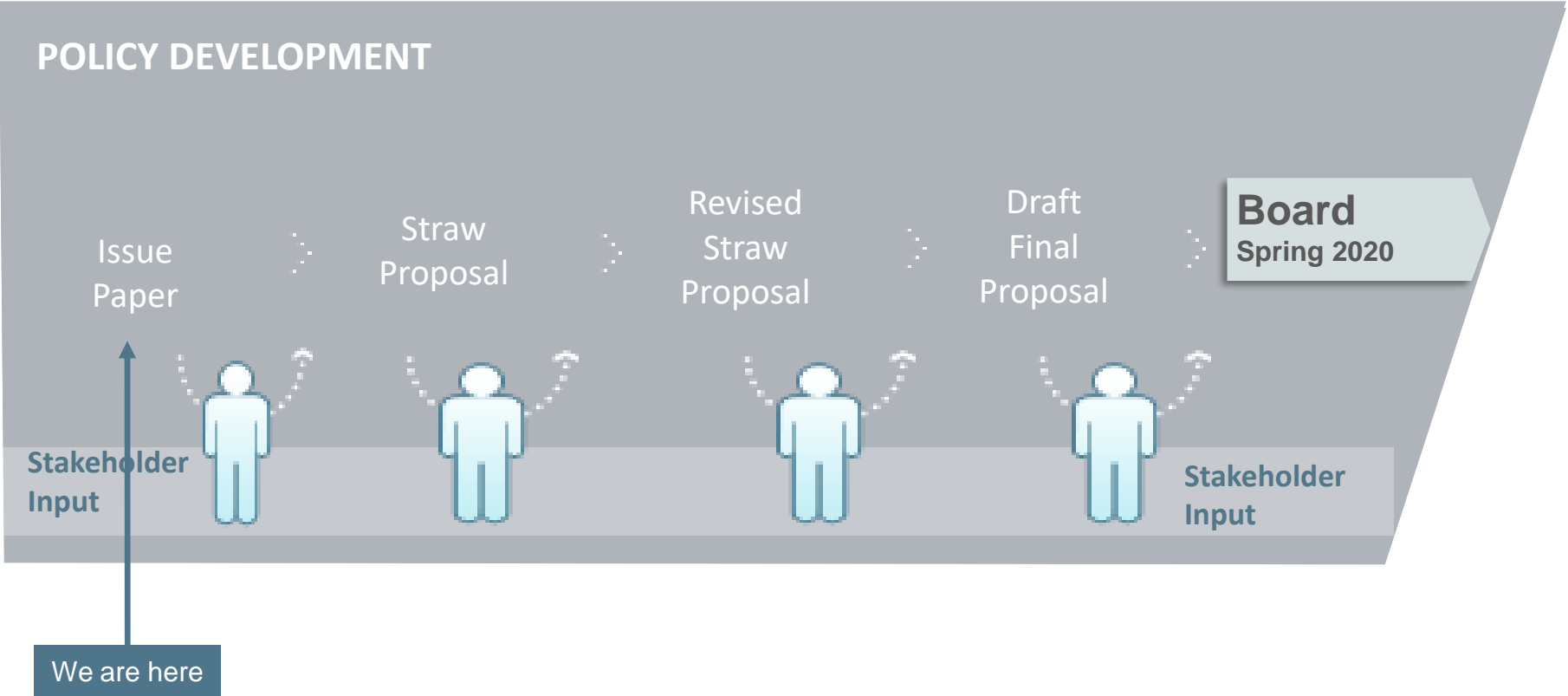
Gabe Murtaugh

Sr. Infrastructure and Regulatory Policy Developer

# Agenda

Time	Topic	Presenter
10:00 – 10:05	Welcome / policy process	Kristina Osborne
10:05 – 11:00	Review issue paper <ul style="list-style-type: none"><li>• Soft Offer Cap</li><li>• Compensation for 12-month CPM</li><li>• Bids above the soft offer cap</li></ul>	Gabe Murtaugh
11:00	Next steps	Kristina Osborne

# Stakeholder Process



# Process Timeline

Milestone	Date
Post Issue Paper	5/30/2019
Stakeholder Call	6/17/2019
Stakeholder Written Comments Due	7/1/2019
Post Straw Proposal	7/23/2019
Stakeholder Meeting	8/6/2019
Stakeholder Written Comments Due	8/20/2019
Revised Straw Proposal Posted	Sept 2019
Draft Final Proposal Posted	Nov 2019
Stakeholder Meeting	Dec 2019
Stakeholder Written Comments Due	Dec 2019
Board of Governors Meeting	Spring 2020

## The CPM scope of the soft offer cap initiative will review the CPM tool

- Scope for the soft offer cap initiative will include:
  - Updating the soft offer cap for the CSP
  - Examining compensation for 12-month designations
    - Potential use of a 3-pivotal supplier test
  - Changes outlined in the RMR-CPM Enhancements initiative
  - Other potential CPM issues

## The ISO uses the CPM backstop mechanism to procure for RA shortfalls

- Load serving entities show RA resources to the ISO in the year-ahead and month ahead timeframes
- When there are shortages or deficiencies, the ISO has authority to procure additional capacity with CPM
  - Procurements may be made in the year-ahead or month-ahead timeframes
  - Procurements may be made for system, flex, or local needs
- CPM is ‘competitively’ priced using the competitive solicitation process
- CPM resources are obligated to bid into the market and are subject to the Resource Adequacy Availability Incentive Mechanism (RAAIM) penalty

## The ISO currently has a soft offer cap for the Competitive Solicitation Process (CSP) at \$6.31/kW-month

- The soft offer cap serves as a 'safe harbor' that resources can bid up to in the CSP for CPM awards
- This also serves as a way to mitigate resources from exercising market power
- The ISO uses 'Going Forward Fixed Costs' (GFFC) for a combined cycle resource plus 20% to calculate the soft offer cap
- The ISO includes costs for insurance, ad valorem, and fixed operations and maintenance to calculate GFFC
  - The ISO does not include financing costs or taxes
- The SOC was designed to be high enough to cover costs for marginal resources on the system

# The ISO is required to update the CPM soft offer cap

- The ISO committed to review CPM compensation in RMR-CPM enhancements initiative at the March ISO Board of Governors meeting
- The tariff obligates the ISO to update the soft offer cap every 4 years
  - The current CPM soft offer cap is \$6.31/kW-month
  - CEC Cost of Generation study was filed in May 2019\*
- The ISO will use this initiative to review outstanding CPM issues, including the soft offer cap

\* [https://www.energy.ca.gov/almanac/electricity\\_data/cost\\_of\\_generation\\_report.html](https://www.energy.ca.gov/almanac/electricity_data/cost_of_generation_report.html)



## The ISO will review the value for the soft offer cap

- The ISO will examine the soft offer cap and make a recommendation for the cap value going forward
- The representative resource initially used in the 2014 California Energy Commission report for the soft offer cap was a 550 MW resource
- The current report includes analysis for a similar 700 MW combined cycle plant
- The system has changed considerably since 2014 and perhaps a new resource or a blend of resource types is appropriate to set the soft offer cap going forward

# The ISO will examine 12-month CPM compensation

- The 12-month CPM designations were made close to the \$6.31/kW-month soft offer cap
- Concern was expressed by some stakeholders that resources receiving CPM designations may be in a position to exercise market power
- May consider pricing for 12-month designations
- May consider a 3-pivotal supplier test
  - How do you choose between multiple resources that fail the test prior to making a designation?
- Current CPM process is relatively easy for the ISO to use

## The ISO will include compensation for designation above the soft offer cap in the filing

- Resources with fixed costs above the soft offer cap may bid those values into the CSP for consideration
- If those bids are accepted, the costs must be verified
- Compensation above the soft offer cap was discussed in the RMR-CPM enhancements initiative
  - Draft final proposal included changing the compensation for resources that bid above the SOC to GFFC+20%
- The ISO has not made any CPM designation to resources bidding above the SOC

## Next Steps

Date	Milestone
July 1	Comments due
July 23	Straw proposal publication
August 6	ISO stakeholder meeting to discuss the straw proposal

Stakeholders are encouraged to submit written comments by July 1 to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com) using the comments template available on the initiative webpage at <http://www.caiso.com/Documents/CommentsTemplate-CapacityProcurementMechanismSoft-OfferCap-IssuePaper.doc>.