

# **MRTU Interim Capacity Procurement Mechanism**

**Market Surveillance Committee/  
Stakeholder Meeting  
June 6, 2007**

**Presented by  
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## CAISO proposes to adapt the current RCST structure to make it compatible with MRTU.

- Would be effective from January 1, 2008 onward, with ability to designate resources in late 2007
- Capacity-only product
- May be superseded by market-based capacity pricing mechanism a few years from now

*RCST = Reliability Capacity Services Tariff*

*MRTU = Market Redesign and Technology Upgrade*

## The conditions/process/trigger for procuring additional capacity needs to be clear.

<b>Backstop is to cover situations where:</b>	<b>Trigger is:</b>
LSE has not contracted for its full RA requirement	Deficiency in showing and it is not cured by LSE
Additional local capacity is needed beyond the aggregate acquired by compliant LSEs	Engineering analysis determines deficiency
A Significant Event has occurred (RA assumptions are no longer valid)	Determination that a significant and enduring event has occurred

*LSE = Load Serving Entity*  
*RA = Resource Adequacy*

## Once designated, a backstop resource would be treated like a Resource Adequacy resource.

- Has a daily offer obligation
- Must bid a \$0 availability bid in Residual Unit Commitment
- No longer eligible for a Frequently Mitigated Bid Adder

## The term of a designation will vary based on the nature of the need.

<b>Situation:</b>	<b>Term:</b>
Deficiency in: <ul style="list-style-type: none"> <li>* Year-Ahead System showing</li> <li>* Year-Ahead Local showing</li> <li>* Month-Ahead System showing</li> </ul>	<ul style="list-style-type: none"> <li>* Minimum of 5 months (May-Sept)</li> <li>* Calendar year</li> <li>* Lesser of 3 months or balance of calendar year</li> </ul>
Significant and enduring event has occurred	Minimum of 3 months, and maximum of up to time CAISO determines that event will remain in effect

## The payment for capacity under the Offer of Settlement was a negotiated value.

<b>Item:</b>	<b>How calculated:</b>
Capacity payment	(Net Qualifying Capacity) x (Availability Factor) x (difference between Monthly RCST Charge and 95% of Peak Energy Rent)
Monthly RCST Charge	(Monthly shaping factor) x (target annual capacity price of \$73.00/kW-year)

*RCST = Reliability Capacity Services Tariff*

## Cost allocation varies based on the situation.

<b>Situation:</b>	<b>How Allocated:</b>
Deficiency in: *Year-ahead System showing *Year-ahead Local showing  *Month-ahead System showing	Pro rata to each SC-RA Entity based on its: * Portion of aggregate year-ahead System deficiency * Ratio of its Local RA Requirement Deficiency to the aggregate Local RA Requirement Deficiency in Local Reliability Area * If due to “effectiveness,” Load Share % in TAC Area * Portion of aggregate month-ahead System deficiency
Significant Event has occurred	Allocated to all SC-RA Entities in the TAC Area(s) in which the Significant Event caused or threatened to cause a failure to meet Applicable Reliability Criteria based on SCs RA Entity Load Share Percentage(s) in such TAC Area(s)

*SC-RA = Scheduling Coordinator Resource Adequacy*

*TAC = Transmission Access Charge*

## There are four topics that we would like to discuss with the MSC and stakeholders today.

- Term of CAISO tariff provision
- Scope of interim backstop mechanism
- Pricing
- Definition of a Significant Event

*MSC = Market Surveillance Committee*

## Some parties have suggested limiting the term of the tariff provisions.

- Have suggested a “sunset date” a few years out
- Feel that this approach could allow parties to reach agreement now, and revisit the topic after MRTU is implemented
- What factors should be considered in developing the term?

*MRTU = Market Redesign and Technology Upgrade*

## Some parties have suggested that the scope should go beyond just pure capacity.

- What is the appropriate scope of the interim backstop mechanism?
  - Capacity only?
  - Capacity plus some RMR services?
  - Capacity plus all current RMR services?
- What criteria should be considered in developing an Opinion?

*RMR = Reliability Must-Run Agreement*

## There are a number of pricing elements that parties wish to discuss.

- Use of a hypothetical versus a “real” unit
- Term over which a designated unit would be paid
- Price escalator for a multi-year tariff
- Affect on price of including services like Black Start
- Treatment of Residual Unit Commitment revenues

How to get to a recommendation?

## **A workable definition of “Significant Event” should be developed that minimizes disputes.**

- What factors might be viewed as legitimate reasons for declaring that a Significant Event has occurred?
  - Loss of facility for a period of time
  - Change in official, approved load forecast (?)
  - Change in federal or state law or regulation (?)
  - Imposition of environmental restrictions that were not considered in grid studies (?)
  - Lack of effective Resource Adequacy program, e.g., excessive reliance on Residual Unit Commitment (?)

## Additional steps are planned to obtain further stakeholder input.

Jun 29	Proposal posted
Jul 25	Stakeholder meeting
Aug 2	Written comments due
Aug 24	Board documents/MSC Opinion finalized
Sep 6-7	Request Board approval to make filing
Sep 11	Make tariff filing

*MSC = Market Surveillance Committee*