Capacity Procurement Mechanism Soft-Offer Cap – *Draft Final Proposal and Draft Tariff Language*

Stakeholder Call
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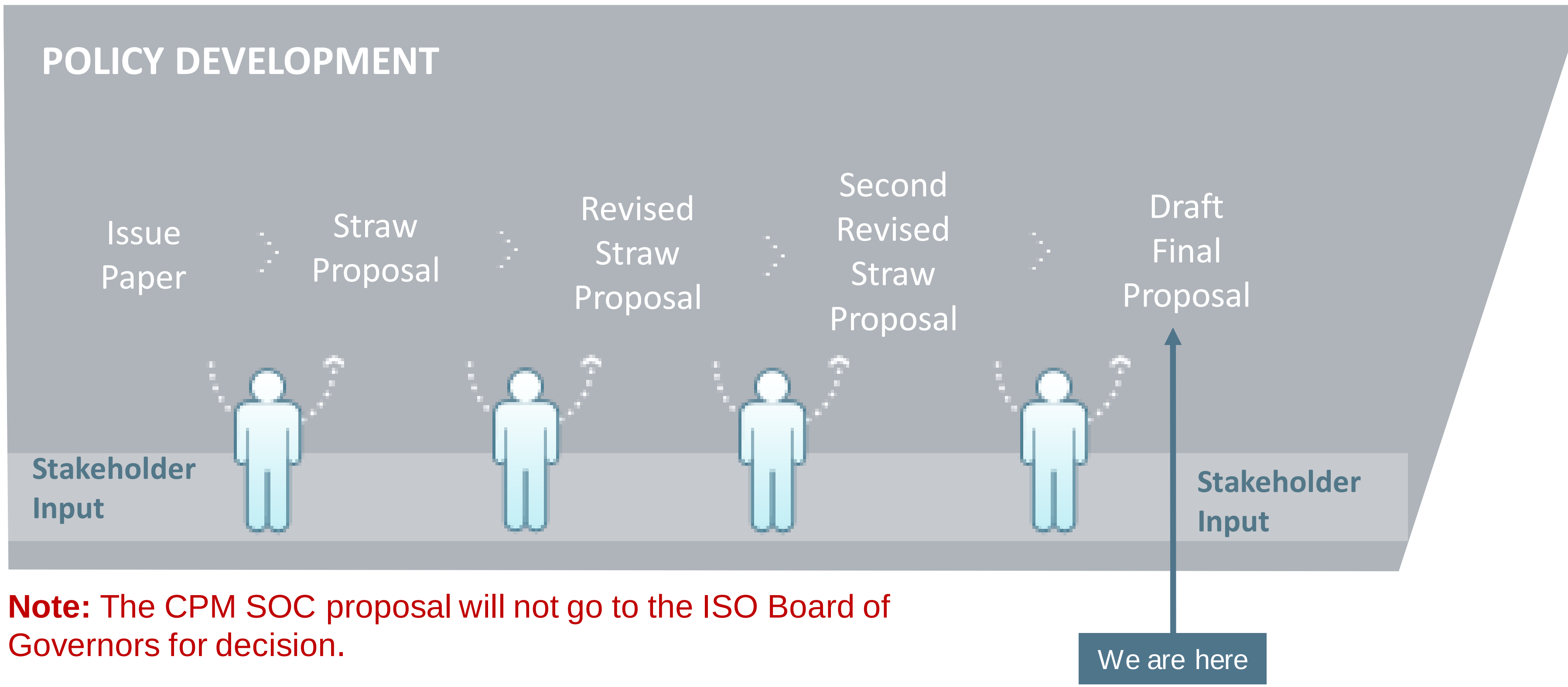
Agenda

Time	Topic	Presenter
9:00 – 9:05	Welcome / policy process	Kristina Osborne
9:05 – 9:45	Review draft final proposal • Background • Soft offer cap • SOC alternatives • Bids above the soft offer cap • Compensation for 12-month capacity procurement mechanism	Gabe Murtaugh
9:45-10:10	Draft tariff language changes	Anthony Ivancovich
10:10	Next steps	Kristina Osborne

Stakeholder Process



Note: The CPM SOC proposal will not go to the ISO Board of Governors for decision.

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 optional CSP
- Accepted CPM bids result in an obligation to bid into the market and subject the resource to Resource Adequacy Availability Incentive Mechanism (RAAIM) penalties

The competitive solicitation process creates an environment where competition drives down costs

- With many independent bids into the CSP, an optimal bidding strategy is at fixed costs for each resource
  - Going forward fixed costs
  - Anticipated market revenues with volatility premium
  - Expenses for necessary capital additions
  - Necessary return
  - Premium for designations less than 12-months
- This fixed payment is made in addition to market revenues, which resources are allowed to keep
- ISO received comments with concerns about this process when there is insufficient competition in the CSP

The ISO currently has a soft offer cap for the CSP at $6.31/kW-month or about $76/kW-year

- 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 SOC
- 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 a marginal resource on the system

The ISO is required to review 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 review SOC every 4 years
  - The current CPM SOC is $6.31/kW-month
  - California Energy Commission (CEC) Cost of Generation study was filed in May 2019*
- The ISO reviewed the CEC study as part of this initiative to determine if the soft offer cap should be updated

* https://www.energy.ca.gov/almanac/electricity_data/cost_of_generation_report.html

Little change in CEC values and a static resource mix on the system imply retaining current SOC

CEC Report	Res Capacity (MW)	Insurance ($/kW-yr)	Ad Velorem ($/kW-yr)	Fixed O&M ($/kW-yr)	GFFC ($/kW-yr)	SOC ($/kW-yr)
2014	550	$8.09	$11.74	$43.23	$63.06	$75.67
2018	700	$7.10	$10.03	$41.77	$58.90	$70.68

- The new study implied a total change of the soft offer cap from about $76/kW-year to about $71/kW-year
  - This is about a 7% decline in costs from 2014 to 2018
- The largest single driver of these changes included updating the size of the resource from 550 to 700 MW
  - If this assumption was removed the change would be very small
- The resource mix on the system that would likely receive a CPM designation changed little in 4 years

The ISO will continue to evaluate if the CPM offer cap is appropriate

- The CPUC and the ISO are expecting major changes in grid-makeup for compliance with the state GHG goals
  – Includes a shift to renewable resources and storage
- The CPUC IRP expects that the value for system capacity may be in excess of $300/kW-year in 2022
  – Largely reflective of fixed costs for storage (or hybrid) resources
- ISO acknowledges these changes, but also wants to maintain that the CPM tool and the soft offer cap are meant for resources that are currently on the system
  – CPM is not a tool used to incentivize new resource build
  – Should be representative of existing resources in current fleet

Other options may be used to determine the soft offer cap in the future

- The soft offer cap may switch from being based on a gas generator to a generator with a different fuel type
  - Ensure that the soft offer cap is reflective of current fleet
- The ISO may not continue to rely on values published by the CEC
  - An independent study may be used to determine resource costs
  - If system changes more rapidly the frequency that the ISO reviews this number may be updated (may be constructed annually)

The ISO will file tariff changes reflective of the RMR-CPM enhancements proposal at FERC very shortly

- The ISO completed the RMR-CPM enhancements initiative in 2019
- Tariff changes included a proposal to adjust the methodology for CPM bids above the soft offer cap
- These changes were discussed at the ISO BOG meeting in March 2019 and were approved for filing and implementation
- ISO did not proceed with filing these specific changes as this (CPM soft offer cap) stakeholder initiative was ongoing

Changes to bids above the soft offer cap are unchanged from what was initially proposed

- The ISO intends to file a primary proposal and an alternate proposal to FERC
  - The alternate proposal will only be considered if the primary proposal is rejected
- Today resources are allowed to bid above the soft offer cap and receive compensation equal to:
  - Full cost of service (like RMR resources) + retention of market revenues
- The primary proposal will update these payments to:
  - Going forward fixed costs + 20% + market rev. (like CPM soft offer cap)
- The alternate proposal will include a payment equal to:
  - Going forward fixed costs + market revenues

The ISO will not implement any market power mitigation for 12-month designations

- The ISO received comments and feedback from stakeholders vocalizing concern about the payments for 12-month CPM designations
  - Market power may result in resources always receiving the SOC
- We heard and understand the concern from stakeholders, but are not choosing to implement changes at this time
- Implementation of the proposed market power mitigation measures would be contrary to changes that were just implemented in the RMR-CPM enhancements initiative
  - CPM and RMR compensation were clarified as being independent tools. CPM is a voluntary tool and receives going forward fixed costs; RMR is a mandatory tool and received full cost of service compensation.

There is no further stakeholder action required on this initiative after the window for comments closes

- A review was completed for the soft offer cap and this value will not be updated
- Other methodologies may be considered in the future for calculation of the SOC, but none will be implemented now
  - CPM tool applies to exiting resources
- The grid composition will likely rapidly change in the future, which may require updates to the soft offer cap
- Additional market power mitigation measures for CPM designations may be considered in the future
- Changes to bids above the SOC will be filed at FERC
  - Changes were approved by ISO Board of Governors (March 2019) and will be filed after feedback on tariff language is received

Next Steps

Date	Milestone
January 9	Stakeholder meeting
January 23	Comments due
February 2020	File tariff language changes at FERC

Stakeholders are encouraged to submit written comments by January 23, 2020 to initiativecomments@caiso.com.