



California ISO

# **Central Procurement Entity Implementation and RAAIM Settlement Modification**

**Draft Final Proposal**

**December 22, 2021**

**Market & Infrastructure Policy**

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## 1 Executive Summary

The CAISO launched this initiative to develop tariff, business processes, and software to enable a central procurement entity (CPE) to procure local RA resources. The CAISO will also modify the current RAIM settlement process in this initiative.

For CPE Enhancements, CAISO proposes to:

- Recognize a central procurement entity as a market participant that is represented by a scheduling coordinator.
- Modify the tariff to allow LRAs to designate all or a portion of their local RA obligation to a CPE or LSE. The CAISO will exempt any CPE or LSE that has no load share in a TAC area from provisions that would cap their local obligation at their system obligation in each TAC area in their month ahead showings.
- Modify the tariff to cap the local obligation and the system obligation in each TAC area for entities that have load in multiple TAC areas.
- Develop functionality to accept and validate system and flexible CPE RA CAM credits.
- Clarify the CPM Process and cost allocation. The CAISO proposes to modify the tariff to apply the existing CPM process and cost allocation methodology to a CPE. Updates to the CAISO's settlement systems to be able to allocate costs to a CPE in addition to individual LSEs in each TAC area.

For the RAIM Enhancements, CAISO proposes to:

- Eliminate the rule that unavailability charges assessed in excess of the monthly cap will roll-over to fund allocations in future months. Rather than rolling excess funds into the next month and reallocate annually, the CAISO proposes to allocate the excess based that trading month's activity according to the current allocation formula that applies to the year-end allocation. The CAISO will allocate any excess RAIM charges for Generic RA or Flexible RA to metered demand.

## 2 Introduction

As part of its resource adequacy (RA) program, the CAISO conducts an annual local capacity technical study to determine the local capacity needs across identified local capacity areas and sub-areas to address transmission constraints as well as establishing and minimum capacity and energy needs in those areas and sub-areas in order to satisfy CAISO mandatory standards.<sup>1</sup> The CAISO assigns proportionate responsibility for local capacity needs within each Transmission Access Charge (TAC) Area to all Scheduling Coordinators (SCs) for Load Serving Entities (LSEs) that serve load in that respective TAC Area. Specifically, the CAISO allocates the local capacity need to each LSE based on the LSE's proportionate share of the relevant TAC Area load at the time of the CAISO's annual coincident peak demand. For non-California Public Utilities Commission (CPUC)-jurisdictional LSEs that are under a different Local Regulatory Authority (LRA), the CAISO assigns local obligations directly to the SC for the LSE. For CPUC-jurisdictional LSEs, the CAISO provides the total local capacity requirements by TAC Area to the CPUC. The CPUC can then reallocate the local obligations to their jurisdictional entities in a manner that CPUC chooses. The CAISO will respect the CPUC reallocation as long as it is at or above the CAISO total local allocation by TAC Area provided to CPUC. Per CAISO Tariff Section 40.3.2, if the CPUC reallocation is below the total local allocation by TAC Area provided to the CPUC, the CAISO will divide the difference to all CPUC-jurisdictional LSEs based on their load share ratio within the applicable TAC Area(s).

As part of the CAISO's annual and monthly RA showings process, the CAISO verifies that the portfolio of procured local resources meets the capacity and energy needs identified in the annual local capacity technical study and can backstop for any identified deficiencies following a cure period.

In June 2020, the CPUC ordered the creation of a Central Procurement Entity (CPE) to lead procurement of Local Resource Adequacy Resources for CPUC-jurisdictional LSEs in the SCE and PG&E TAC Areas.<sup>2</sup> Under this order, CPUC would now assign the local RA obligation to the CPE to procure local resources on behalf of all CPUC-jurisdictional LSEs within the CPE's respective TAC Area. The bundled system and flexible RA attributes of CPE procured local resources

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<sup>1</sup> For more information on this process see:

<https://stakeholdercenter.caiso.com/RecurringStakeholderProcesses/Local-capacity-requirements-process-2023>

<sup>2</sup> See CPUC D. 20-06-002

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M340/K671/340671902.PDF>

would be allocated to all CPUC-jurisdictional LSEs to help reduce each LSE's system and flexible RA requirements. The CPUC adopted what it referred to as a hybrid procurement model, in which LSEs could choose to show their own local resources to the CPE and keep the entire system and flexible RA requirements for themselves. However, under the existing framework the CPE would still be subject to CPM cost allocation if that LSE failed to show that capacity to the CAISO.

The CAISO tariff currently allows LSEs to aggregate responsibilities to procure Local Capacity Area Resources.<sup>3</sup> However, given the unique nature of the CPE as outlined in CPUC D. 20-06-002, relying solely on this existing tariff provision is not sufficient to facilitate implementation of the CPE construct. The CAISO has identified additional needed tariff, software, and business process enhancements. Although the CPUC's CPE order is the impetus for this stakeholder initiative, the CAISO does not propose to limit the CPE framework to CPUC-jurisdictional LSEs. The CAISO proposes to allow LRAs to designate a CPE to procure local resources for their LSEs or LRAs can jointly designate a CPE to procure local resources for their respective LSEs. The goal of this initiative is to develop the necessary tariff language and software enhancements, and obtain Board and FERC approval to enable a generic CPE construct for RA Year 2023.

### **3 Stakeholder Process**

The CAISO is at the Draft Final Proposal stage in the Central Procurement Entity Implementation and RAAIM Settlement Modification stakeholder process. Table 1 below shows the schedule for each stage of the initiative.

The purpose of the draft final proposal is to present the background, scope, and solutions of issues to facilitate implementation of a central procurement entity construct and RAAIM settlement modification in the CAISO's tariff and business processes. After publication of the draft final proposal and a stakeholder call, the CAISO will publish a final proposal.

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<sup>3</sup> CAISO tariff section 40.3.3., titled "Procurement of Local Capacity Area Resources by LSEs", states: "Scheduling Coordinators for Load Serving Entities may aggregate responsibilities for procurement of Local Capacity Area Resources."

**Table 1: Stakeholder Timeline**

<b>Date</b>	<b>Milestone</b>
<b>December 2021</b>	<b>Draft Final Proposal and Draft Tariff</b>
<b>January 2022</b>	Stakeholder meeting and comments on Draft Final Proposal
<b>February 2022</b>	<b>Final Proposal and Revised Draft Tariff</b>
<b>February 2022</b>	Stakeholder meeting and comments on Final Proposal
<b>March 16-17, 2022</b>	<b>Present proposal to CAISO Board</b>
<b>October 2022</b>	<b>Implementation for RA Year 2023</b>

## **4 Central Procurement Entity Background**

In June 2020, the CPUC completed a two year stakeholder process to develop a central buyer system with the goal that this new entity would provide “cost efficiency, market certainty, reliability, administrative efficiency, and customer protection.”<sup>4</sup> In D.20-06-002, the CPUC ordered, “Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) to serve as the central procurement entity for their respective distribution service areas for the multi-year local Resource Adequacy (RA) program beginning for the 2023 RA compliance year.”<sup>5</sup> Under this framework, LSEs within the “PG&E’s and SCE’s distribution service areas will no longer receive a local allocation beginning for the 2023 Resource Adequacy compliance year”.<sup>6</sup>

The CPUC also adopted a hybrid central procurement structure that if a CPUC-jurisdictional LSE procured resources that “also meets a local Resource Adequacy (RA) need, the LSE may choose to: (1) show the resource to reduce the central procurement entity’s (CPE) overall local procurement obligation and retain the resource to meet its own system and flexible RA needs, (2) bid the resource into the CPE’s solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA

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<sup>4</sup> See CPUC D. 20-06-002 page 3.

<sup>5</sup> See CPUC D. 20-06-002 page 91

<sup>6</sup> See CPUC D. 20-06-002 page 91

needs”.<sup>7</sup> The order also laid out requirements for the CPE’s competitive, all-source solicitation to procure local resources including that the “RA attributes shall remain bundled and LSEs shall receive credits for any system or flexible capacity procured during the local RA or backstop processes, based on coincident peak load shares, as is currently done with Cost Allocation Mechanism (CAM) resources”.<sup>8</sup>

Additionally, the CPUC order allows that “the central procurement entity (CPE) shall have discretion to defer procurement of a local resource to the California Independent System Operator’s backstop mechanisms, rather than through the solicitation process, if bid costs are deemed unreasonably high. If the CPE defers to the backstop procurement, the CPE shall provide, through the independent evaluator report and annual compliance report, the reason for the deferral to backstop procurement, prices offered in the solicitation, which generators did not participate in the solicitation (if any), and other relevant information”.<sup>9</sup>

In D.20-12-006, the CPUC adopted the proposed competitive neutrality protocols for SCE and PG&E, and a proposal for a local capacity requirements (LCR) reduction compensation mechanism to apply to new preferred resources, and new energy storage resources.<sup>10</sup>

The CAISO has launched this initiative to identify and develop the CAISO’s tariff, business processes, and software necessary to accommodate a central procurement entity. While the CAISO intends to develop tariff language broad enough to allow any LRA to develop their own central procurement entity, the impetus for this initiative is implementation of the CPUC’s D.20-06-002. The CAISO has met with CPUC and CPE staff to develop a shared understanding of the order, and the CAISO intends to develop tariff language and implementation details based on that understanding.

In R.21-10-002, the CPUC initial scoping memo also indicated that the Commission could “consider potential modifications to the CPE structure and process, including implementation details of the ‘shown’ resource component of the hybrid framework and changes to the CPE timeline”.<sup>11</sup> As a result, the final

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<sup>7</sup> See CPUC D. 20-06-002 page 91

<sup>8</sup> See CPUC D. 20-06-002 page 94

<sup>9</sup> See CPUC D. 20-06-002 page 100

<sup>10</sup> See CPUC D.20-12-006 for more details.

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M353/K540/353540952.PDF>

<sup>11</sup> See CPUC R. 21-10-002 page 5

<https://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=414681705>

framework of the hybrid procurement structure of the central procurement entity is still somewhat under development. The CAISO will not be discussing how the Commission should modify the hybrid procurement structure or any other aspect of the CPE framework in this initiative, and will direct parties to bring up these policy concerns in the CPUC proceeding. However, the CAISO has identified areas of flexibility that could be built into the tariff and software that could accommodate some changes that may result from an order issued in the R.21-10-002 proceeding. The CAISO is and will continue to be an active participant in this proceeding to ensure that programs stay aligned to the best extant possible.

Given the short implementation timeframe, the CAISO must conduct its stakeholder process in parallel with the CPUC proceeding. The CPUC is expected to publish a proposed decision on February 1, 2022 and a final decision on March 1, 2022. The CAISO also plans to take its final policy to the Board of Governors on March 16-17 2022 to allow the CAISO time to get any tariff changes approved by the Federal Energy Regulatory Commission (FERC) and software changes implemented by October 2022 for RA Year 2023.<sup>12</sup>

## **5 Proposal**

On an annual basis the CAISO conducts a local capacity technical study to “determine the minimum amount of Local Capacity Area Resources in MW that must be available to the CAISO within each identified Local Capacity Area, and identify the Generating Units within each identified Local Capacity Area”.<sup>13</sup> The CAISO takes the results of this study and divides the requirements amongst CPUC and Non-CPUC-jurisdictional LSEs in accordance with Tariff Section 40.3.2. Specifically, the CAISO takes the total need in each TAC area that corresponds to all CPUC-jurisdictional LSEs and sends it to the CPUC, the CPUC then reallocates the requirements to each CPUC-jurisdictional entity based on the method of their choice. If the CPUC does not allocate the entire obligation, the CAISO will allocate any remaining capacity requirements to LSEs using the default provisions in the tariff. For LSEs under the jurisdiction of other LRAs, the CAISO allocates directly the local obligations pro-rata based on load in the TAC area.<sup>14</sup>

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<sup>12</sup> Depending on the size and scope of software changes needed to implement the final policy, an October 2022 implementation deadline is not guaranteed

<sup>13</sup> See Tariff Section 40.3.1

<sup>14</sup> See Tariff Section 40.2.3(a-b)

Procured local resources that satisfy the generation capacity requirements for Local Capacity Areas are put on annual and monthly Resource Adequacy Plan(s). The CAISO then validates that the resulting portfolio of all shown RA resources covers the needs identified in the local capacity technical study. If any deficiencies are identified, LSEs are provided a cure period. If deficiencies remain, the CAISO can issue a CPM to procure additional capacity that may be needed to ensure reliability in the local areas and sub-areas. Costs of this local CPM capacity are first allocated pro rata to the responsible entity based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency.<sup>15</sup>

Below the CAISO outlines how it proposes to incorporate a central procurement entity into this process.

## **5.1 Recognizing a Central Procurement Entity**

The CAISO proposes to define a central procurement entity as a market participant that is represented by a scheduling coordinator. The CAISO will execute a pro-forma Scheduling Coordinator agreement with the CPE, and may add a new sub-section in section 4 of the CAISO tariff to define the roles and responsibilities of this new market participant. If this new sub-section is added, a new pro forma agreement may be needed.

Section 40.3.2 covers how the CAISO allocates local RA obligations to LSEs. For CPUC-jurisdictional LSEs, the CAISO will calculate the total Local Capacity Area Resource obligations, and transmit these obligations to the CPUC. The CAISO tariff allows the CPUC to reallocate these obligations across its jurisdiction LSEs using its own methodology. However, if the allocation method utilized by the CPUC does not fully allocate the total sum, the CAISO will allocate the difference to all SCs of CPUC-jurisdictional LSEs their proportional share using the methodology outlined in Section 40.3.2(a). Today this tariff section is written so that only LSEs can hold a local RA obligation. The CAISO proposes to modify this section to contemplate that the CPUC may assign a local obligation to a CPE as well as to a LSE.

In the case of non-CPUC-jurisdictional LSEs, this section would maintain the default allocation methodology described in Section 40.3.2(a), but also provide an annual window in which LRAs may choose to shift all or part of their LSEs' local RA obligations to a CPE. The CAISO has contemplated that to achieve

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<sup>15</sup> See Tariff Section 43A.8.1

greater efficiency and further reduce administrative burdens—especially for smaller LRAs—multiple LRAs may wish to assign their LSEs’ local obligations to the same CPE. For example assume an LRA has an LSE under its jurisdiction in a particular TAC area and a second LRA has an LSE in that same TAC area. Those two LRAs may find that it is more beneficial for the two LSEs under their jurisdiction to have their local RA obligations met by a single CPE. The CAISO proposes to permit such allocations from multiple LRAs to a single CPE.

When assigned a local obligation by an LRA, the CPE will be responsible for submission of annual and monthly Resource Adequacy plans to the CAISO following existing RA plan submission timelines. The CPE will be subject to penalties for late/missing submissions. While the CPUC did adopt a multi-year procurement framework, the CAISO is not proposing to modify its processes to accept and validate multi-year RA showings at this time. The CPE should make annual showings to the CAISO. Additionally, since the CPE will be represented by a scheduling coordinator, it will be subject to the Scheduling Coordinator ID GMC Charge.

### **Stakeholder Comments**

All commenting parties (CALCCA, CDWR, MRP, PG&E, and SCE) were generally supportive of the CAISO’s effort to recognize and incorporate the CPE into its tariff and systems. MRP supported requiring the CPE to be represented by a Scheduling Coordinator, which would also allow the CPE to be the SC for any resource over which it also secured dispatch rights. CDWR supported the CAISO proposal to continue to allocate local RA obligation to non-CPUC jurisdictional entities, and allow a voluntary option to shift all or part of the local RA obligation to a CPE that may be formed by non-CPUC jurisdictional entities. CAISO also confirms CDWR’s comments that non-CPUC jurisdictional entities will not be required to procure local RA through a CPE or CPE processes as outlined by the CPUC. CDWR also supports the CAISO maintaining its annual RA showings process.

PG&E asked for more clarity on the proposed language and requirements applied to the CPE as a market participant, including details on a new sub-section 4 of the tariff and pro forma agreement. CAISO has posted the draft tariff language along with this paper, which provides details on changes to section 4. The CAISO is working with its Regulatory Contracts team to develop the pro forma language and will have that available to stakeholders for comment and review prior to taking this initiative to the Board. PG&E asked for confirmation that the CPE would be able to net any credit requirements for establishing the

new SC ID needed with that of the Utility it operates under, since they are the same legal and financial entity. CAISO is continuing internal discussions on this request, and will have a final answer in the next paper.

## **5.2 System and Local obligation for CPE and LSEs with Load in Multiple TAC Areas**

A CPE is designed to serve a procurement function rather than serve load. As such, a CPE will not be assigned a load share.<sup>16</sup> In the allocation methodology described in Section 40.3.2(a), a LSE will not be assigned a local obligation in excess of “its applicable Demand and Reserve Margin requirements for the applicable month”. In instances where a CPE or LSE does not have load share in a specific TAC area, but is assigned a local obligation by a LRA), the CAISO proposes to exempt the entity from this provision of the tariff and develop software enhancements to support this exemption. If not exempted, under the existing tariff the entity’s local obligation would be capped at 0 MWs, and would not be committed to show capacity to meet its assigned obligation.

On a separate but related issue, it has been brought to the CAISO’s attention that this tariff provision can have unintended consequences for LSEs with load in multiple TAC areas. For LSEs that serve load in multiple TAC areas they would be allocated a local obligation in each TAC area, but these local obligations would be capped at their entire system obligation. This could lead to higher local CPM cost allocation as compared to an LSE with load in a single TAC area. The CAISO proposes to modify Section 40.3.2(a) of the tariff and develop software enhancements to allow for LSEs with load in multiple TAC areas to cap an LSE’s local obligation at their applicable Demand and Reserve Margin requirements in each TAC area for the applicable month.

### **Stakeholder Comments:**

Stakeholders were generally supportive of this proposal, but asked several clarifying questions. CDWR asked whether the proposal to cap local at system in each TAC area for LSE’s with load in multiple TAC areas would apply to annual or monthly RA showings. The CAISO clarifies that the existing tariff provision only applies to monthly showings process. Local obligations are not capped at system obligations in the annual showings process. CDWR also asked if LSEs under a CPE will be exempt from submitting annual and monthly plans since the

CPE is submitting them, and will both LSE and CPE need to show annual and monthly plans in case of partial shifting of LSE local RA obligation to a CPE? The CAISO clarifies that this initiative does not make any changes to the showing requirements, but simply allows the LRA to assign RA obligations to the CPE. CPE and LSEs will still need to make showings to the CAISO following the existing timeline and process that reflect their assigned obligation (by either the LRA or CAISO).

PG&E also raised concern about the CAISO initial proposal to only exempt the CPE from the tariff provision that its local obligation would be capped at its system obligation and unintended consequence this would have if the CAISO capped individual LSE's local obligations at their system obligation in each TAC. If the CPUC modifies its order and allows portions of the local RA obligation to be assigned to individual LSEs, especially those that have agreed to self-show local resources, PG&E was concerned that these tariff provisions could have provided a loop hole that would allow the LSE to get out of their assigned local obligation. The CAISO had not thought of the overlap in these two policies, and has modified the proposal to exempt any entity without load share in a TAC area that their local obligation could not exceed their system obligation in each TAC area. This modification should ensure that LSEs that have been assigned a local obligation by the LRA will be required to meet that obligation regardless if they have a load share in that TAC area.

### **5.3 Allocation of System and Flexible Attributes of Local RA Resources**

The system and local RA attributes of a resource cannot be unbundled. In recognition of this, the CPUC ordered that the CPE continue to buy the bundled attributes of the resource and use CAM credits to allocate the system and flexible attributes of the resources to LSEs to help meet their own system and flexible RA obligations.

Today, the CAISO has software to validate CAM credits used by the CPUC to allocate the system attributes of IOU owned resources to other LSEs. To accommodate a CPE, the CAISO proposes to build off this existing functionality and implement separate fields in the LRA Credit templates in CIRA to accept and validate system CPE CAM credits. The CAISO will require that all CPE system credits allocated to LSEs must match the exact quantity of local RA resources shown by the CPE (or that the LRA expects the CPE to show).

The CAISO currently does not have the functionality to accept and validate flexible RA CAM credits. The CAISO proposes to build and implement separate fields in the LRA Credit templates in CIRA to accept and validate the CPE flexible CAM credits. Similarly if the LSE has a CPE, the CAISO will require that all flexible credits allocated to LSEs match the exact quantity of flexible RA capacity shown by the CPE (or that the LRA expects the CPE to show).

**Stakeholder Comments:**

Stakeholders did not offer any objections or modifications to these proposed changes. CDWR supported that RA attributes of resources remain bundled and use of credits to assign attributes. PG&E also supported this approach, and believed this supported the hybrid procurement framework adopted by the CPUC.

## **5.4 Clarification of CPM Process and Cost Allocations**

The CAISO proposes to modify the tariff to apply the existing Capacity Procurement Mechanism (CPM) process and cost allocation methodology to a CPE as outlined in Tariff Section 43A, and how this process will apply to a CPE. While the CAISO expects minor changes to this tariff section to recognize a CPE in these processes, CAISO will likely need to update its settlement systems to allocate costs to a CPE in addition to individual LSEs in each TAC area.

After the annual and monthly showings deadline, the CAISO will look at the entire portfolio of shown RA resources to validate that the procured portfolio satisfies the capacity and energy requirements identified in the LCR study. If a deficiency is identified, the CAISO will offer a CPE and its LSEs an opportunity to cure the deficiency per Section 40.7. The CAISO will then have discretion to determine if additional capacity is needed to fulfill any remaining identified need, and will first designate an individual deficiency in Local Capacity Area Resources and allocate cost proportionally to all deficient LSEs and CPEs. Any remaining local capacity deficiency in the year ahead timeframe will be filled through a collective local CPM and allocated pro-rata to all LSEs with load in that respective TAC area.

Since under the current construct, a CPE is not assigned a load share, it would not be allocated CPM costs associated with a Collective Local CPM, System CPM, Flex CPM, Significant Event CPM or Exceptional Dispatch CPM. In the future, were an LRA to assign a CPE a system or flexible RA obligation, the CPE would be subject to CPM cost allocation for an individual deficiency in system RA or cumulative deficiency in Flexible RA capacity or in a specific flexible capacity category.

### ***RA credits from CPM designations***

Currently, only LSEs can receive RA credits from applicable CPM procured resources, and LRAs are allowed to determine whether these credits should be allowed to count towards the RA requirements adopted by the LRA.<sup>17</sup> The CAISO proposes to modify this rule to allow CPEs to receive RA credits from CPM procured resources associated with the LSEs they are representing. Additionally, the CAISO proposes to allow LRAs to reallocate these credits to its CPE(s) and LRA(s) in the same way they can reallocate RMR credits among their jurisdictional entities today.<sup>18</sup>

### ***CPM Cost Allocation under the CPUC's Hybrid Procurement Framework***

Under the hybrid procurement framework adopted by the CPUC, LSEs are allowed to self-show Local RA capacity to the CPE to reduce the CPE's overall local capacity procurement target while retaining the system and flex attributes of the resource for themselves. However, unless the LRA transfers the local obligation back to that LSE, the CPE will still be responsible for meeting the entire local obligation at the CAISO. In discussions with CPE staff, there is a concern about how CPM cost allocation would work if LSEs self-show resources to the CPE but fail to show these same resources to the CAISO.

As a general principle, the CPM cost allocation for an individual local RA deficiency will follow the entity assigned the local obligation by the LRA. Therefore, CPM backstop costs will be allocated according to how the LRA apportioned the local capacity obligation. If the CPUC assigns the entire local obligation to the CPEs, as specified in D.20-06-002, then the CPE will carry the backstop cost risk. When making a CPM need determination, the CAISO will continue to look at the full portfolio of resources shown by all LSEs and CPEs and will also consider resources voluntarily shown by individual LSEs that may have agreed to self-show to their CPE or the CAISO. However, if LSEs fail to show their resources, and/or a deficiency is identified, CPM costs will first be allocated to individual deficient LSEs or the CPE, as applicable. The CPE will likely have the largest local obligation since it will be allocated a proportionate share of the CPM costs. It will be up to the CPE to decide how it re-allocates any CPM costs to its LSEs.

If the CPUC and parties would like to change this, they will need to submit proposals in CPUC proceeding R.21-10-002 to modify the original CPUC

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<sup>17</sup> See Tariff Section 43A.9e

<sup>18</sup> See Tariff Section 41.8

decision that prohibits the CPUC from allocating local obligations to individual LSEs. Modifying the decision would allow the CPUC to re-allocate the local obligation to those LSEs that agreed to self-show their resources, and thereby allow the CAISO to allocate CPM costs directly to those LSEs if they fail to show their resources to the CAISO and a deficiency is identified and cured by the CAISO under its CPM authority.

For other LRAs who create a CPE but keep the local RA obligation with the individual LSEs, this general principle would also apply. The CAISO could also validate the RA plans submitted by the CPE to support the assigned obligations of the individual LSEs, and if any deficiencies were identified, the CPM cost allocation would remain with the individual LSEs.

***RMR cost allocation and credits***

For resources that the CAISO deems as Reliability Must Run units, the CAISO allocates the cost of these resources to LSEs proportional to their load in each applicable TAC area(s). The CAISO does not propose any modifications of the cost allocation methodology for RMR to account for the CPE, and will continue to allocate costs directly to LSEs. The CAISO will continue to give the CPUC the RMR credits to allocate to its jurisdictional LSEs, and the CPUC can decide if it would like to allocate the local attributes of the resource to the CPEs and system and flex attributes to LSEs, and the CAISO will accept this allocation.

**Stakeholder Comments:**

The CAISO received mixed feedback on its proposal to include the CPE into existing CPM processes. CDWR agreed that the CPE should be allocated CPM costs for individual local RA deficiencies, and receive RA credits after the cost allocation.

CALCCA did not object to the CAISO proposal, but rather raised concern that there needs to be more transparency in the CPE's procurement process and better documentation/explanation as to why they did not procure their full allocation of local RA or deferred it to CAISO's CPM process. They were concerned that the CAISO may not be any more successful in offering CPM designations to additional resources to fulfill the local requirements, and that this delayed procurement could lead to over procurement of system and flex RA by LSEs since they won't have certainty on to how much credit they will receive from CAISO backstop. CALCCA did acknowledge that these issues need to be address in the CPUC's R. 12-10-002 proceeding, but want to highlight these issues in the CAISO stakeholder process as well. The CAISO agrees these

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issues are not in scope of this initiative, but would support efforts for further transparency in the CPE solicitation process and documentation of why the CPE elected to defer procurement to the CAISO's CPM process. Additionally, the CAISO is considering launching a separate stakeholder process next year to discuss various issues and enhancements related to its CPM process, and would also consider how the CPE fits in with these issues and any subsequent enhancements.

CMUA submitted late comments, and offered several high level principles that should be considered when modifying the CAISO's rules to accommodate the CPE framework. First, is that there should be no significant changes to the character of the CPM. CMUA express concerns with the potential increase use of CPM, and advocated for a broader initiative to discuss the impact the CPE might have on the CPM construct, and for more discussion at the CAISO surrounding its RA rules and how they apply to CPUC and non-CPUC jurisdictional entities. Two, there should be greater data transparency and tracking of cost causation. CMUA expressed further concerns that the CPE may negatively affect long-term procurement planning for the CAISO BAA, and could erode reliability, and drive additional costs to non-CPE entities. CMUA urge the CAISO to ensure the CAISO rules to accommodate the CPE implementation should have no impact on non-CPUC jurisdictional entities. CAISO generally agrees with these principles, and that its proposal reasonably meets these objectives. The CAISO has not modified its CPM process, but rather incorporated the CPE into these existing processes. CAISO would support efforts at the CPUC to provide greater transparency around CPE procurement. CAISO was also careful to make the use of a CPE by non-CPUC jurisdictional entities optional in its tariff and software systems. CAISO is considering launching a separate CPM process enhancements initiative, and could continue to consider CMUA's concerns within the scope of that initiative to facilitate the broader discussion requested.

SCE was generally supportive, but wanted additional clarity on the curing process for the CPE and LSEs in the event of a deficiency. If a deficiency is identified after the annual and monthly showings deadline, the CAISO will notify all entities that have been assigned a local obligation. They will then have 30 days to cure during the annual process and 15 days to cure during the monthly process. The CAISO is not proposing any additional changes the curing process, other than to allow the CPE to be allowed to show additional capacity during the cure period. The obligation to show the capacity will remain with the entity assigned the local obligation by the LRA. During the annual process, an LSE could offer to show additional capacity on behalf of the CPE. After this cure period ends, the CAISO will evaluate all showings (whether made by CPE or

LSE) and determine whether these additional resources are sufficient or whether we need to CPM additional capacity. The CAISO would also allow an LSE outside of the CPE's territory to show capacity that could be used to cure the deficiency.

MRP commented that the CAISO's proposal to only include the CPE in two out of the six CPM cost allocations but not RMR cost allocation seems to have little benefit. However, the CAISO disagrees with this assertion. In order to maintain cost causation principles for individual local deficiencies, the CAISO must allocate costs to the entity assigned the obligation. Since the CPUC has ordered that the local obligation be assigned to the CPE, the CAISO will need to allocate any CPM costs to the CPE if we designate any individual deficiencies. The other CPM cost allocation methodologies are based on load share, and since the CPE does not have a load share, they will not be allocated costs. Additionally the CAISO designates RMR units based on reliability needs, and they are not a backstop to the RA program. Again because the CPE does not have a load share, and is simply a RA procurement agent on behalf of LSEs, the CAISO believes it is justified in maintaining the status quo on how it allocates cost of RMR units directly to LSEs based on their load share in each TAC area.

PG&E offered an alternate proposal for CPM cost allocation of local RA deficiencies. They suggested the CAISO modify its tariff to allow LRA's to determine their own cost allocation methodology for individual local deficiencies and the CAISO would have default provisions. They argue that this would allow for greater flexibility to accommodate any changes the CPUC may make to the CPE or hybrid procurement framework. The CAISO does not support this proposed alternative. This proposal could break cost causation principles- in that the CPUC could assign costs to an entity that was not responsible up front for meeting the local RA obligation. Under the proposed tariff changes from this initiative the CPUC would be permitted to allocate the local RA obligation up front to its jurisdictional entities including CPEs however it sees fits, as long as it sums to the total local obligation assigned to the CPUC by the CAISO. If the CPUC wants the cost assigned to a different entity other than the CPE, then they need to allocate the local requirement to that entity prior to showings being submitted and the CAISO's CPM process running, not after the fact.

PG&E cites tariff provisions related to the Flex RA program that allows an LRA to determine their own Flex RA allocation methodology and CAISO has default provisions. However, this tariff section does not support PG&E's proposal to apply similar provisions to Local RA. These Flex RA provision outline that the LRA can determine the upfront Flex RA allocation that will then be used in the

CPM cost allocation, with the CAISO having default provisions if this is not established. This maintains cost causation principles by aligning the cost allocation methodology with the upfront requirement allocation methodology. This process already exists for local RA, and the CAISO will assign costs that align with how the LRA assigned the local RA requirements in advance of the annual and monthly showings process. Practically speaking, the CAISO settlement system also cannot accommodate annual changes to the CPM cost allocation methodologies as suggested by PG&E's proposal.

## **6 RAAIM Settlement Modification**

### **6.1 Background**

The CAISO has identified an issue with the Resource Adequacy Availability Incentive Mechanisms (RAAIM) settlements that requires modification. RAAIM consists of a system of non-availability charges and availability incentive payments to scheduling coordinators of RA resources. These charges and credits are determined for each individual RA resource based on an assessment of how often during the each calendar month that capacity was bid into the CAISO's real-time market, which is then translated into a monthly availability percentage. If a resource falls below 94.5 percent of its must offer obligation, the CAISO assess a non-availability charge for the month. If the resource's availability exceeds 98.5 percent of its must offer obligation, it is eligible for an availability incentive payment for the month. If the resource falls between 94.5-98.5 percent, it does not receive a charge or payment.

There is a limit placed on the amount of availability incentive payments that can be allocated in any month but not on the amount of non-availability charges collected. Any excess non-availability charges above this limit are then rolled over to be used in future months. At the end of the year, any excess funds are distributed to metered demand.

This mechanism has created several challenges that were discussed in a CAISO waiver request filed at FERC.<sup>19</sup> In that filing, the CAISO committed to explore ways to change the carry-forward mechanism that would avoid future waiver filings. As explained in the filing, the carry-forward mechanism creates a financial

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<sup>19</sup> For more details and background on this issue see FERC Waiver submitted on April 10, 2020 <http://www.caiso.com/Documents/Apr10-2020-PetitionforLimitedWaiver-RAAIM-ER20-1552.pdf>

issue when a settlement recalculation determines that an RA resource that was initially assessed RAAIM charges is due a refund or reduction of those charges. The only possible source for the refund is the pool of unallocated RAAIM charges that is awaiting year-end distribution. But if a refund obligation were to arise at a point when there are not sufficient unallocated funds with which to pay, as occurred in connection with the waiver filing, it would be impossible for the CAISO to comply with its tariff obligations and pay the refunds. This would not be the case if excess RAAIM charges were distributed monthly, because that would allow the ISO to resettle the excess distribution, recovering part of it, to pay the refunds.

## **6.2 Proposal**

The CAISO proposes to modify the current RAAIM settlement processes to eliminate the rule that unavailability charges assessed in excess of the monthly cap will roll-over to fund allocations in future months. Rather than rolling excess funds into the next month, the CAISO proposes to allocate the excess based on activity in that trading month according to the allocation formula that currently applies to the year-end allocation. The CAISO will allocate any excess RAAIM charges for Generic RA or Flexible RA to metered demand. This proposal has several benefits. First, eliminating the monthly roll-over ensures that the resettlement issues that necessitated the CAISO's April 10, 2020 waiver filing will not recur. Second, allocating excess funds based on metered demand will simplify the calculation. Third, eliminating the monthly roll-over rule should increase the effectiveness of RAAIM by ensuring that a resource's performance in a given month is either paid or charged for that month. Additionally, by allocating the excess funds to metered demand, LSEs will be compensated for resources that did not perform in accordance to their RA contract obligations. Finally, this change ensures that RAAIM settlements charges and credits all take place within the month in which they are incurred. This will address the burden on the CAISO's reserve account.

### **Stakeholder Comments:**

The CAISO received supportive comments from PG&E and SCE on these proposed changes. PG&E strongly supports the elimination of the RAAIM carry-forward mechanism, and believes the CAISO is well-justified to move to a more simplified and fair process to distribute the excess RAAIM charges. CALCCA did not offer comments on this proposal, and CDWR did not object.

## ***CPE Implementation/RAAIM Settlement Modification Draft Final Proposal***

MWD raised concern with the CAISO's proposal original proposal to exclude market participants that have Transmission Ownership Rights (TOR) from the metered demand calculations for both Generic and Flex RA. They argued that as a market participant with TORs, their generation that participates in the CAISO market will be subject to RAAIM penalties, but MWD would no longer be eligible to be allocated excess RAAIM penalties. Additionally, since the straw proposal does not reduce the RA showing requirements of entities that use TOR's to meet their RA needs this policy would only reduce their benefits without reducing their risks, which they argue does not appear fair and asks the CAISO to reconsider this policy. The CAISO agrees with these concerns, and has modified its policy to allow market participants with TORs to be included in the metered demand calculations for Generic RA and Flex RA, and thus will be eligible for allocation of any excess funds.

Middle River Power opposed this policy change for many reasons. First, they objected to its inclusion in the CPE implementation initiative rather than RA Enhancements or its own stand-alone initiative. In the April 2020 waiver at FERC, the CAISO committed to seeking longer term solutions to avoid the need to request further waivers. RA Enhancements phase 1 concluded prior to the waiver being submitted, and phase 2 has been delayed and would not be implemented until RA year 2024. The CAISO has renamed this initiative to better highlight the inclusion of the RAAIM settlement modification proposal in the scope of this initiative.

Second they argue that the proposal would not address the underlying issue because the unallocated RAAIM charge may not be sufficient to pay a refund on a monthly basis. CAISO disagrees with this assertion, and argues that the proposed solution to eliminate the monthly roll over would reduce the exposure and burden on the CAISO's reserve accounts.

Third, they argue that RAAIM is already asymmetrically biased and that incentive payments will only be paid out if there are charges assessed in the month. They argue that we should also lower the availability targets and 2% dead band to be centered on 92.5% to reflect a more reasonable forced outage rate. They also proposed that metered demand should be charged to fund RAAIM incentive payments if not enough penalties are collected. In response, the CAISO would argue that generators are already receiving RA capacity payments that should cover their costs to be available, and therefore are not entitled to any additional payments if there are no RAAIM charges assessed in that month. The RAAIM incentive mechanism was designed to incent bidding and provide better enforcement of the resources must offer obligation. If the resource's bidding falls below the 94.5% availability target agreed upon by parties, the CAISO believes it

is reasonable to distribute any excess penalties to load who had paid for these resources to be available to the CAISO. Charging load again to fund additional incentive payments could be viewed as a double penalty/charge.

Fourth they argued that if the CAISO believes a resource that is penalized in one month should not be eligible for RAAIM payments in a later month, then the CAISO should have structured RAAIM to apply over a longer period of time. CAISO believes this is a mischaracterization of its arguments and policy. The elimination of the monthly roll over would not prevent a resource from getting payments in future months if it was assessed penalties in the current month, but rather would modify the pool of money that it can be paid from. Additionally assessing RAAIM over a longer period of time would also exacerbate the settlement issues this policy is trying to address.

Finally, they argue that if the CAISO is going to eliminate the monthly carry-over then the CAISO should further balance out RAAIM by 1) lowering the availability targets to 92.5%, and 2) charging metered demand to cover incentive payments not covered by penalties assessed in the month. CAISO could consider re-evaluating the availability targets in the future- especially if the PRM was modified to account for a higher forced outage rate of the fleet, but this does not change the need for modifications to the settlement process at this time. Additionally, resources already have several mechanisms to limit their RAAIM penalty exposure by providing substitute capacity for forced outages or lower their shown RA values to account for higher ambient derates or other outages it might experience in the month. The CAISO reiterates its arguments that because resources already receive monthly RA capacity payments, they are already being paid by load for their availability and charging demand again to fund additional RAAIM payments could be viewed as a double payment to resources for providing the same services.

## **7 EIM Governing Body Role**

The role of the EIM Governing Body with respect to policy initiatives changed on September 23, 2021, when the Board of Governors adopted revisions to the corporate bylaws and the Charter for EIM Governance to implement the Governance Review Committee's Part Two Proposal. Under the new rules, the Board and the EIM Governing Body have joint authority over any proposal to change or establish any CAISO tariff rule(s) applicable to the EIM Entity balancing authority areas, EIM Entities, or other market participants within the EIM Entity balancing authority areas, in their capacity as participants in EIM. This scope excludes from joint authority, without limitation, any proposals to

change or establish tariff rule(s) applicable only to the CAISO balancing authority area or to the CAISO-controlled grid.

Charter for EIM Governance § 2.2.1 None of the tariff rule changes currently contemplated in this initiative would be “applicable to EIM Entity balancing authority areas, EIM Entities, or other market participants within EIM Entity balancing authority areas, in their capacity as participants in EIM.” The proposed tariff rules would be applicable “only to the CAISO balancing authority area or to the CAISO-controlled grid.” Accordingly, the matters scheduled for approval in March 2022 fall outside the scope of joint authority.

The “EIM Governing Body may provide advisory input over proposals to change or establish tariff rules that would apply to the real-time market but are not within the scope of joint authority.” No aspects of this initiative would apply or impact the real time market, therefore this initiative also falls outside of the EIM Governing Body advisory role.

Stakeholder comments were generally supportive of this EIM Governing Body classification, and no objections were raised.

## **8 Next Steps**

The CAISO will discuss this issue paper/straw proposal with stakeholders during a stakeholder meeting on January 6, 2022. Stakeholders are asked to submit written comments by January 20, 2022 through the commenting tool. A comment template will be posted on the CAISO’s initiative webpage here: <https://stakeholdercenter.caiso.com/StakeholderInitiatives/Central-procurement-entity-implementation>