Clarification to the Reliability Must Run Designation Process Final Proposal

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Stakeholder Call

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- Please keep comments professional and respectful.
- Please try and be brief and refrain from repeating what has already been said so that we can manage the time efficiently.

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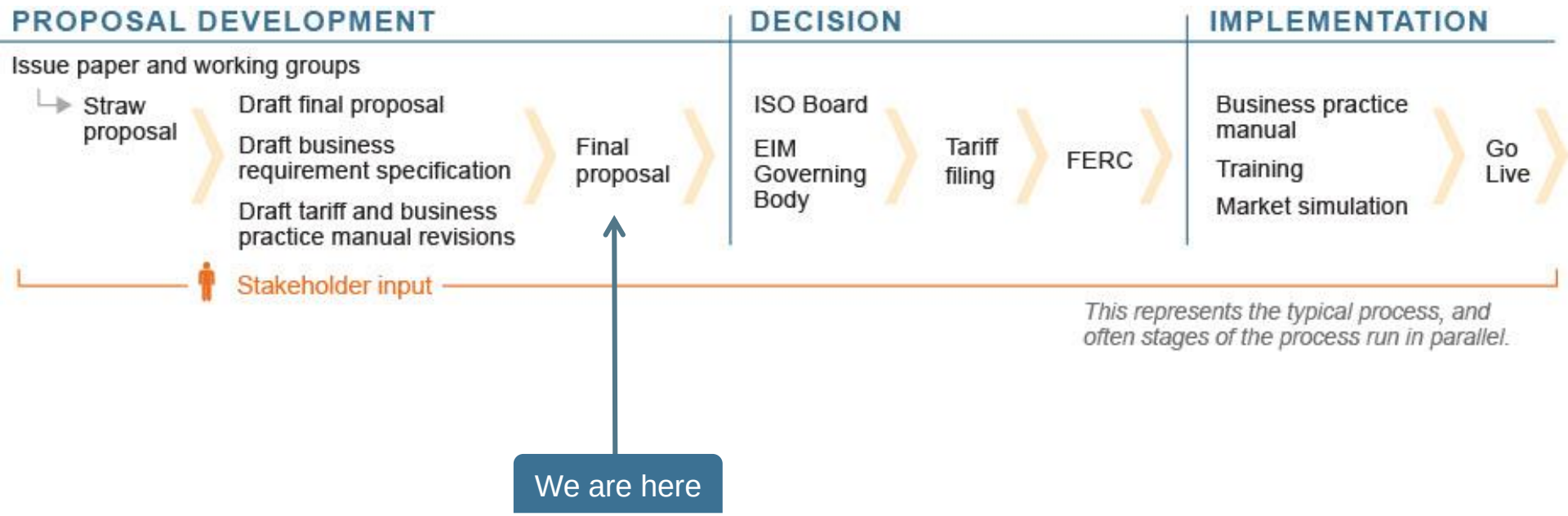
CAISO Policy Initiative Stakeholder Process



Agenda

- Introduction and background
- Purpose of stakeholder initiative
- Stakeholder comments received after the straw proposal
- Principles
- Incentives
- Other issues
- Final proposal
- Clarifications regarding recent concerns
- Open discussion
- Initiative schedule
- Next steps

Introduction and Background:

- During the July Board meeting, the ISO proposed and the Board approved Reliability Must Run designation for Agnews Power Plant for local reliability reasons as described in the 2022 Local Capacity Technical study.
- Tariff section 41.2 “Reliability Studies and Determination of RMR Status” specifies that in addition to the Local Capacity Technical Study under 40.3.1, the ISO may perform additional technical studies, as necessary, to ensure generators are retained for compliance with Reliability Criteria.
- PG&E and Cal-CCA pointed out that the Tariff and Reliability Requirements BPM are not clear if local or system are considered the primary Reliability Must Run (RMR) designation when both local and system wide reliability needs exist.
- At the Board direction, the ISO has conducted a stakeholder process in order to clarify the primary reliability need.

Purpose of stakeholder initiative

- The purpose of this initiative is to clarify the Reliability Must Run (RMR) designation type (local or system) when more than one reliability reason for designation exists.
- The reliability need triggers the cost allocation as well as the resource adequacy credits allocation of the Reliability Must Run contract.
  - Per ISO Tariff section 41.9 “the ISO will allocate Reliability Must-Run costs not recovered through market revenues to the Scheduling Coordinators for Load-Serving Entities that serve load in the TAC Area(s) in which the need for the RMR Contract arose”.
  - Per ISO Tariff section 41.8 “the ISO will provide Resource Adequacy credits to the Scheduling Coordinators of Load-Serving Entities that serve load in the applicable TAC Area(s) in which the need for the RMR Contract arose equal to the Load-Serving Entity’s pro rata share of the eligible net qualifying capacity of the RMR Resource”.

Stakeholder Comments regarding the Straw Proposal

- After the September 29 stakeholder call regarding the Straw Proposal the ISO has received 3 sets of stakeholder comments (some on behalf of multiple stakeholders).
- Stakeholders have provided mixed responses:
  - 1 align with local first
  - 2 align with hybrid
- CalCCA has proposed a hybrid method (discussed below)
- PG&E has proposed revisions to the RMR Tariff and contract terms (also discussed below).

Principles:

Cost-Causation:

- ISO can designate RMR for a single reliability need (local or system)
- When both reliability needs are present one of them can be considered primary without distorting the cost-causation principle
- Numbers of hours of expected need for ratepayer benefit:
  - Local - usually high (tens-hundreds-thousands) of hours
  - Hybrid - N/A (generally high for local, low for system)
  - System - usually low (tens) of hours

Principles (cont):

Allocate costs in a manner that reflects benefits received

- All LSEs paying for the RMR contract receive RA credits (local, system and flex)
- Are the RA credits received by paying LSEs useful to them?
  - Local – yes, all credits are useful
  - Hybrid – partial, most LSEs will not be able to use the local RA credit
  - System – partial, most LSEs will not be able to use the local RA credit
- Value of RA credits – from public RA reports (CPUC):
  - Local – Premium
  - Hybrid – Premium for some LSEs, average for other LSEs
  - System – Average

Proper incentives:

- Participating Transmission Owners (PTOs) incentive to build:
  - Highest when local need is considered first
  - Medium when hybrid allocation is used
  - Lowest when system need is considered first

- Load Serving Entities (LSEs) incentive to procure:
  - Highest when local need is considered first
  - Medium when hybrid allocation is used
  - Lowest when system need is considered first

Other issues:

- Requires Oakland's legacy RMR contract conversion? (Where contract cost are recouped by the PTO, not directly by the ISO.)
  - No when local need is considered first
  - Yes when hybrid allocation is used
  - Yes when system need is considered first
- ISO does not agree with stakeholders suggesting that only new RMR contracts should be subject to the "new" type of designation like "hybrid" or "system first" because:
  - Discriminatory treatment based on the original designation
  - Not reflecting the current reliability needs of the system
  - Evaluation of reliability need is done every year for every existing RMR unit
  - Ignoring new reliability needs for some but not all of the RMR resources will result in an unfair cost and RA credit allocation

Example of cost allocation if the allocation is maintained as originally designated in the first year of need:

	Year 1		Cost alloc.	Year 2		Cost alloc.	Year 3		Cost alloc.
Reliability need	Local	System		Local	System		Local	System	
Unit A	Yes	No	Local	Yes	Yes	**Local**	No	Yes	**Local**
Unit B	-	-	-	Yes	Yes	Hybrid	No	Yes	**Hybrid**
Unit C	-	-	-	No	Yes	System	Yes	No	**System**
Unit D	-	-	-	No	Yes	System	Yes	Yes	**System**

Example of cost allocation if the allocation is maintained as originally designated only if that need still exists:

	Year 1		Cost alloc.	Year 2		Cost alloc.	Year 3		Cost alloc.
Reliability need	Local	System		Local	System		Local	System	
Unit A	Yes	No	Local	Yes	Yes	**Local**	No	Yes	System
Unit B	-	-	-	Yes	Yes	Hybrid	No	Yes	System
Unit C	-	-	-	No	Yes	System	Yes	No	Local
Unit D	-	-	-	No	Yes	System	Yes	Yes	**System**

Other issues (cont):

- Expected mitigation time in order to eliminate the need:
  - Local - usually long 5-10+ years
  - Hybrid - expected short 2-3 years
  - System - expected short 2-3 years
- ISO implementation cost and timelines:
  - Local first – quick implementation and low cost
  - Hybrid – long implementation time and high cost
  - System first – quick implementation and low cost
- Timing and complexity of hybrid allocation:
  - Appropriate split between local and system needs is complex. (examples are: split 50/50, split based on the number of mandatory standards, split based on number of contingencies, split based on expected number of hours of local need vs. system need)
  - Require further stakeholder discussion, input and justification
  - Due to software changes most likely implementation is 2024

Details on hybrid cost-causation (RMR vs RA):

- CalCCA proposal is a hybrid with cost allocated based on “local premium mark-up” as available in the CPUC RA reports (~20%).
  - CPUC RA reports are two years old (including RA prices).
  - RMR contract is cost based not market base.
- Per Tariff, the RMR contract cannot be used to back-stop the RA program. It is exclusively used to back stop for reliability reasons after the ISO receives a retirement/mothball request.
- The reliability need dictates the cost allocation. The cost allocation further dictates the RA credits allocation.
- The ISO believes that under “hybrid” cost allocation it is more appropriate to use “estimated number of hours of local need vs. system need”. Therefore under a hybrid allocation local should receive 10-100 times higher cost allocation than system. Effectively the “hybrid” allocation will be very close to local first allocation.

Comparing alternatives:

Principle (P) Incentive (I) Other (O)	Local as primary	System as primary	Hybrid method
Cost-Causation (P)	Second best	Third best	Best
RA credits (local, system and flex) (P)	Best	Third best	Second best
Building transmission (I)	Best	Third best	Second best
Procuring resource as RA (I)	Best	Third best	Second best
Conversion of current RMR contracts (O)	Best	Second best	Second best
Assumed mitigation time (O)	Best	Second best	Second best
Implementation cost (O)	Best	Second best	Third best
Complexity and timeline (O)	Best	Second best	Third best

Final Proposal:

- The ISO proposes that local be considered the primary reliability need and that cost and RA credits follow the same principle.
- Reasons:
  - This type of designation is consistent with cost-causation principle
  - It is the only alternative that allows all paying LSEs to fully utilize their RMR provided RA credits including the most valuable, the local RA credits
  - Provides the highest level of incentives to the PTO in building new local transmission in order to eliminate the local need
  - Provides the highest level of incentives to LSEs in order to procure this resource under an RA contract
  - It is the only alternative that does not require the conversion of the legacy RMR contract for Oakland into the new type of RMR contract
  - It is simple
  - Can be implemented by the ISO quickly and at low cost

Clarifications regarding recent concerns

- If a local need is mitigated and local RMR designations are no longer required, but system needs persist, a resource can be transitioned from “local” to “system”.
- This raised the concern with parties outside of the local TAC area they did not have an opportunity to RMR rate proceedings or negotiated settlement discussions but are now facing a share of the costs.
- PG&E proposal to terminate the initial RMR agreement and negotiate a new one places excessive burden on the generator that was seeking to retire, and is currently precluded by current terms that would require a 1 year break between the two agreements being in effect.
- The ISO suggestion is that any party concerned about future system ramifications should participate in these proceedings even if the initial local designation does not affect them.

Open discussion

Initiative Schedule

- Post issue paper – August 10
- Stakeholder call – August 17 – comments by August 31
- Post straw proposal – September 22
- Stakeholder meeting – Sept. 29 – comments by Oct. 13
- Post draft final proposal – November 1
- Stakeholder call – Nov. 8 – comments by November 22
- Board of Governors Meeting – December 2021
- BPM update after Board briefing – Exact date TBD

Next Steps

- Comments due by end of day November 22, 2021
- Submit comments using the template provided on the initiative webpage located here: https://stakeholdercenter.caiso.com/StakeholderInitiatives/Clarifications-to-reliability-must-run-designation-process

Thank you for your participation.

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