



Capacity Procurement Mechanism Enhancements

Track 1 Draft Final Proposal

September 16, 2022

Market & Infrastructure Policy

Capacity Procurement Mechanism Enhancements

Track 1 Draft Final Proposal

Table of Contents

- 1. Executive Summary..... 3
- 2. Stakeholder Process..... 4
- 3. Background on CPM 5
- 4. Proposal 7
 - 4.1. Reducing the volume (MW) of significant event CPM designations when the designated capacity has already been committed..... 7
 - 4.2. Reducing the term of significant event CPM designations when the designated capacity has already been committed or is unavailable to the ISO 9
 - 4.3. CPM reporting via OASIS 11
 - 4.4. CPM market notices..... 12
 - 4.5. CPM notifications to scheduling coordinators..... 12
- 5. ISO Responses to Stakeholder Feedback on Straw Proposal 12
- 6. Next Steps 16

1. Executive Summary

The ISO uses its capacity procurement mechanism (CPM) to address resource adequacy (RA) deficiencies and potential reliability concerns. The ISO can use its CPM authority to address specific circumstances defined by the following six CPM designation types:¹

1. Insufficient local capacity area resources in an annual or monthly RA plan
2. A collective deficiency in local capacity area resources
3. Insufficient RA resources in a load-serving entity’s annual or monthly RA plan
4. A CPM significant event
5. A reliability or operational need for an exceptional dispatch CPM
6. A cumulative deficiency in the total flexible RA capacity included in the annual or monthly flexible RA capacity plans, or in a flexible capacity category in the monthly flexible RA capacity plans

When the ISO makes CPM designations, it relies on capacity willingly offered to the ISO by resource owners. To attract such capacity, the ISO conducts annual, monthly and intra-monthly competitive solicitation processes, into which resource owners may offer their capacity to the ISO at prices up to a soft offer cap, currently set at \$6.31/kw-month.² Resource owners may also cost justify offers above the soft offer cap.

The CPM Enhancements stakeholder initiative is comprised of at least two tracks. Track 1 addresses five operational and process enhancement issues, and the ISO is planning to take Track 1 for approval at the December 2022 Board of Governors meeting. Track 2 will re-examine the CPM soft offer cap. It will be started at some point in the future and will likely require a longer stakeholder process than Track 1.

Summary of Track 1 Proposals:

Note: in response to stakeholder feedback on the straw proposal, the ISO has made adjustments to the first three of the following five proposals. In addition, the ISO plans to make a tariff clarification in conjunction with its first proposal. For more detail on stakeholder feedback and the ISO’s perspective on such feedback, please refer to section 5 of this draft final proposal.

1. [Reducing the volume \(MW\) of significant event CPM designations when the designated capacity has already been committed](#): the ISO should be able to make mid-term significant event CPM award reductions if the designated capacity has already been committed (and shown to the ISO) for an RA contract, reliability must-run (RMR) contract or monthly CPM designation (referred to here as “other capacity commitments”). This will allow capacity designated for significant events to participate in RA and RMR contracts and accept monthly CPM designations that may begin

¹ ISO tariff section 43A.2

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

² ISO tariff section 43A.4.1.1

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

during the significant event CPM term. The ISO will only be allowed to make such mid-term significant event CPM award reductions when the other capacity commitments are accepted before the significant event CPM award is accepted. In conjunction with this proposal, the ISO plans to make a tariff clarification to more explicitly forbid CPM designated capacity from taking on new RA obligations that conflict with the CPM obligations. The ISO already has this type of authority and flexibility for exceptional dispatch CPM awards.

2. [Reducing the term of significant event CPM designations when the designated capacity has already been committed or is unavailable to the ISO](#): the ISO proposes to allow resource scheduling coordinators to voluntarily accept significant event CPM designations for less than 30 days at the resource scheduling coordinator's discretion. For example, the resource scheduling coordinator may have sold the capacity for the following month to a counterparty outside the ISO, or the resource may have a planned outage in the following month. This proposal will allow resource scheduling coordinators with capacity that is unavailable to the ISO for the following month to accept mid-month shorter-term significant event CPM designations, providing the ISO with more immediate access to available capacity. This proposal is similar to proposal 4.1, but it allows for shorter terms (instead of reduced volumes) and also addresses commitments that are not currently visible to the ISO (such as commitments to counterparties outside the ISO), whereas proposal 4.1 deals exclusively with commitments that are visible to the ISO at the time of designation.
3. [CPM reporting via OASIS](#): the ISO proposes to meet its obligation to post CPM designation reports (tariff section 43A.6.2) through its open access same-time information system (OASIS), which now receives CPM designation information directly from the ISO's customer interface for resource adequacy (CIRA) application.
4. [CPM market notices](#): the ISO proposes to extend the CPM designation market notice deadline from two business days to five business days. This will ensure the ISO has sufficient time to collect the information needed for the market notice, undertake the proper reviews, obtain necessary approvals, and issue the market notice in a timely manner.
5. [CPM notifications to scheduling coordinators](#): the ISO proposes to make the resource scheduling coordinator contact information directly visible and editable in CIRA to avoid CPM designation notifications being sent to an outdated contact.

2. Stakeholder Process

The Capacity Procurement Mechanism (CPM) Enhancements stakeholder initiative is comprised of at least two tracks. Track 1 addresses operational and process enhancement issues and is the focus of this draft final proposal. As shown in Table 1 below, the ISOs plans to seek Track 1 approval at the December 2022 Board of Governors meeting and implement Track 1 in 2023. Track 2 will re-examine the CPM soft offer cap and will likely require a longer stakeholder process. Track 2 will have a separate Board of Governors presentation and a later implementation timeline.

Table 1: CPM Enhancements Stakeholder Initiative Schedule

Date	Track 1 Milestone
July 28, 2022	Publish straw proposal
August 4, 2022	Stakeholder call on straw proposal
August 18, 2022	Due date for stakeholder comments on straw proposal
September 16, 2022	Publish draft final proposal
September 23, 2022	Stakeholder call on draft final proposal
October 7, 2022	Due date for stakeholder comments on draft final proposal
November 3, 2022	Publish draft tariff language
November 8, 2022	Publish final proposal
November 15, 2022	Stakeholder call on draft tariff language and final proposal
November 17, 2022	Due date for stakeholder comments on draft tariff language
December 15, 2022	Board of Governors presentation
2023	FERC filing and implementation

3. Background on CPM

The ISO uses its capacity procurement mechanism (CPM) to address RA deficiencies and other potential reliability concerns. The ISO's use of its CPM authority is often referred to as "backstop" procurement, required when sufficient capacity has not been procured through the RA program. The ISO's backstop procurement authority also includes reliability must-run (RMR) contracts, which the ISO uses to retain resources that would otherwise retire but the ISO determines are needed to maintain reliable grid operations based on the results of technical studies and analyses.³ The ISO can use its CPM authority to procure capacity that is not committed RA capacity or RMR capacity to address specific circumstances defined by the six CPM designation types listed in Table 2. The ISO does not use RMR authority to backstop RA deficiencies.

³ ISO tariff section 41

<http://www.caiso.com/Documents/Section41-Procurement-RMRResources-asof-Sep28-2019.pdf>

Table 2: CPM Designation Types⁴

#	CPM Designation Type
1	Insufficient local capacity area resources in an annual or monthly RA plan
2	A collective deficiency in local capacity area resources
3	Insufficient RA resources in an LSE's annual or monthly RA plan
4	A CPM significant event
5	A reliability or operational need for an exceptional dispatch CPM
6	A cumulative deficiency in the total flexible RA capacity included in the annual or monthly flexible RA capacity plans, or in a flexible capacity category in the monthly flexible RA capacity plans

When the ISO needs to make CPM designations, it relies on capacity willingly offered to the ISO by resource owners. To attract such capacity, the ISO conducts annual, monthly and intra-monthly competitive solicitation processes, in which resource owners may offer their capacity to the ISO at prices up to a soft offer cap, currently set at \$6.31/kw-month. Any offers above the soft offer cap must be cost-justified at FERC to recover up to a resource-specific cost of service rate.⁵

The existing soft offer cap of \$6.31/kw-month was set during the ISO's capacity procurement mechanism replacement stakeholder initiative and was based on a subset of combined cycle fixed costs, as published by the California Energy Commission (CEC).⁶ The ISO has a tariff obligation to open a stakeholder initiative every four years (at the latest) to examine the soft offer cap and consider whether it needs to be changed. In its capacity procurement mechanism soft offer cap stakeholder initiative, the ISO met that tariff obligation by considering updated combined cycle fixed costs published by the CEC in May 2019.⁷ In Track 2 of this CPM Enhancements stakeholder initiative and in accordance with its tariff obligation, the ISO plans to re-examine the soft offer cap and consider other potential enhancements.

⁴ ISO tariff section 43A.2

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

⁵ ISO tariff section 43A.4.1.1.1

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

⁶ ISO's Capacity Procurement Mechanism Replacement stakeholder initiative:

<http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=bfe609ff-a9a1-4828-bf01-51a495bef7e2>

The current Soft Offer Cap of \$6.31/kw-month is the monthly equivalent of \$75.67/kw-year, which is equal to 120% x \$63.06/kw-year. \$63.06/kw-year is the levelized going-forward fixed cost (fixed O&M, ad valorem taxes, insurance) of a 550 MW advanced combined cycle resource with duct firing, as published by the California Energy Commission in its 2014-2015 study "Cost of New Renewable and Fossil Generation in California."

⁷ ISO's Capacity Procurement Mechanism Soft Offer Cap stakeholder initiative:

<https://stakeholdercenter.caiso.com/StakeholderInitiatives/Capacity-procurement-mechanism-soft-offer-cap>

Estimated Cost of New Utility-Scale Generation in California: 2018 Update, CEC, May 2019

<https://www.energy.ca.gov/sites/default/files/2021-06/CEC-200-2019-005.pdf>

The ISO's capacity procurement mechanism process starts with a competitive solicitation process where resource owners submit offers through the ISO's customer interface for resource adequacy (CIRA) application. The ISO's submission window requires offers to be submitted prior to any announcement of whether capacity might be needed by the ISO for a CPM designation. After offers are submitted and the adjustment window is closed, the ISO validates the offers to ensure the capacity is uncontracted. If there is a CPM need, the ISO will then select resources that meet the designation criteria at the lowest total cost. If there are insufficient offers, the ISO can offer CPM designations at the soft offer cap to capacity not offered into the competitive solicitation process.

As mentioned above, resource owners may offer their capacity to the ISO at prices above the soft offer cap, but they must cost-justify such offers at FERC based on the resource-specific going forward fixed costs, *i.e.*, fixed operation and maintenance costs, ad valorem taxes and insurance. There are two important differences between the calculation of the above-cap cost of service rate and derivation of the soft offer cap: a.) the cost of service rate is based on resource-specific inputs, whereas the soft offer cap is based on a generic 550 MW advanced combined cycle resource with duct firing; and b.) the cost of service rate calculation does not include a 20% adder, whereas the soft offer cap derivation does include a 20% adder. These differences were reflected in a May 2022 compliance filing that the ISO submitted to FERC, finalizing the above-cap cost of service rate calculation methodology.⁸

4. Proposal

In Track 1, the ISO proposes to address five CPM operational and process issues, as summarized and detailed below:

- Proposal 4.1 addresses significant event CPM awards and mid-term reductions in volume (MW) required by the ISO.
- Proposal 4.2 addresses significant event CPM awards and reductions in term at the discretion of the resource scheduling coordinator.
- Proposal 4.3 addresses CPM reporting.
- Proposal 4.4 addresses CPM market notices.
- Proposal 4.5 addresses CPM notifications to scheduling coordinators.

4.1. Reducing the volume (MW) of significant event CPM designations when the designated capacity has already been committed

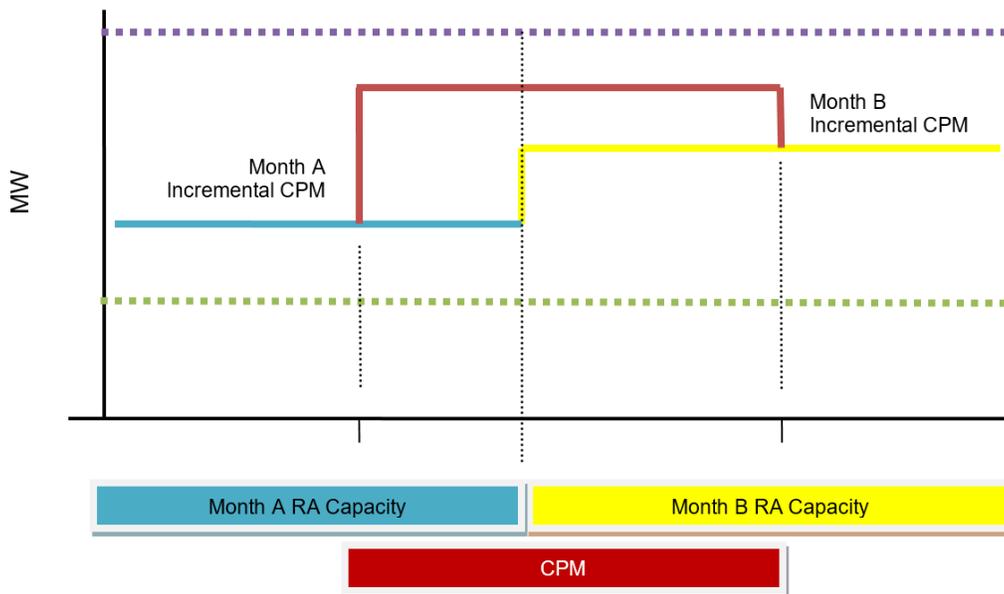
The ISO proposes that it have the ability to reduce significant event CPM awards as follows: if capacity that receives a significant event designation is already shown as RA capacity or has received a monthly CPM designation or is under an RMR contract as of a certain date, then the significant event CPM designation shall be reduced by the amount of the new RA capacity, monthly CPM designation, or RMR

⁸ Docket ER20-1075, ISO compliance filing to FERC, 5/23/22
<https://www.caiso.com/Documents/May23-2022-ComplianceFiling-CapacityProcurementMechanism-CPM-above-SoftOfferCap-ER20-1075.pdf>

contract (referred to here as “other capacity commitments”) from that date through the rest of the CPM designation term. The ISO will only be allowed to make such mid-term significant event CPM award reductions when the other capacity commitments are accepted before the significant event CPM award is accepted. This proposal will allow capacity designated for significant events to participate in RA and RMR contracts and accept monthly CPM designations that may begin during the term of the significant event CPM designation. The ISO already has this type of authority for exceptional dispatch CPM awards (as explained and illustrated below), and it is appropriate to extend such authority to include significant event CPM awards. Like exceptional dispatch CPMs, significant event CPMs can span multiple calendar months, and the resource’s RA Capacity, RMR status and designations for monthly CPM awards may change during the term of the significant event CPM.

The ISO today has the authority to make mid-term reductions to exceptional dispatch CPM awards when the designated capacity receives an RA, monthly CPM, or RMR contract.⁹ Figure 1 below shows a resource with RA contracts in months A and B and a 30-day exceptional dispatch CPM award that includes both months. As shown in the chart, the RA volumes increase from month A to month B, and the CPM award is decreased accordingly, keeping the total capacity awards unchanged and at the required level.

Figure 1: Illustration of ISO’s existing authority related to Exceptional Dispatch CPM Awards¹⁰



The ISO proposes to apply this same logic to significant event CPM awards, providing the ISO with the flexibility to make a CPM designation that can volumetrically change from one calendar month to the next, if warranted by changes in RA, CPM, or RMR volumes. For example, consider a resource with 100 MW of net qualifying capacity across the year. Next, consider that this particular resource has shown to

⁹ ISO Tariff Section 43A.2.5.2.4

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

¹⁰ ISO business practice manual for reliability requirements, section 12.3.2

<https://bpmcm.caiso.com/Pages/BPMDetails.aspx?BPM=Reliability%20Requirements>

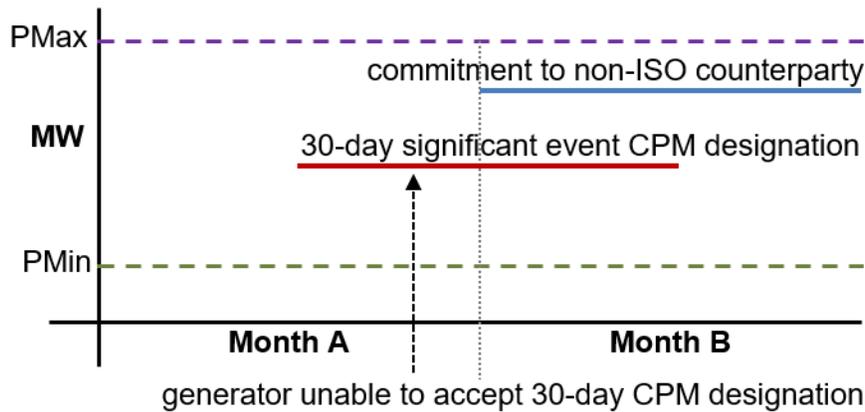
the ISO 40 MW of RA in month A and 70 MW of RA in month B. Finally, consider that the ISO wants to designate this resource for a 50 MW significant event CPM award beginning in the middle of month A. With proposal 4.1 implemented, the ISO will be able to move forward with such a CPM designation, because it will have the authority to decrease the CPM award from 50 MW to 20 MW in month B, corresponding to the increase in the shown RA from 40 MW to 70 MW. This will allow the ISO to take full advantage of uncontracted capacity in a specific calendar month, even if that uncontracted volume is not available for a full 30 days. Without this proposed flexibility, the ISO will remain unable to make significant event CPM designations for capacity it needs immediately if such capacity would become RA, RMR, or monthly CPM capacity during the term of the CPM designation.

In conjunction with proposal 4.1, the ISO plans to clarify the tariff to forbid resources from taking on new RA obligations after they have accepted a CPM designation if those new RA obligations conflict with the CPM obligations. For example, consider a resource with 100 MW of NQC with no existing RA obligations that accepts a 30-day CPM designation for 80 MW on April 15. Through May 14, that resource would not be allowed to take on additional RA obligations that exceed the 20 MW of remaining NQC. In general, the timing of the RA showings process already addresses this concern. In this example, the RA showing deadlines for May would have already passed by the time the CPM designation occurred. However, in cases of longer-term CPM designations or with availability to serve as RA substitute capacity there potentially could be a concern. Adding minor clarifying language to the tariff to address this possibility will help reinforce the principles that resources voluntarily accepting a CPM designation: (a) will be held to the term of designation they accept; and (b) never will be allowed to sell the same MW of capacity twice.

4.2. Reducing the term of significant event CPM designations when the designated capacity has already been committed or is unavailable to the ISO

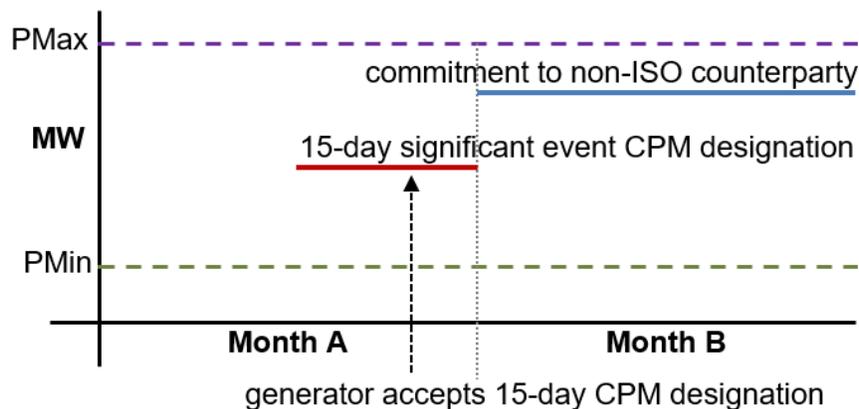
Under current CPM rules, the minimum term for a significant event CPM designation is 30 days. Because of this rule, a resource scheduling coordinator may have to reject a mid-month significant event CPM designation because the designated capacity has an existing commitment or is unavailable for the following month and, as such, the resource scheduling coordinator is not able to accept a 30-day minimum designation term. For example, figure 2 below (which illustrates the status quo) shows a resource that is unable to accept a 30-day significant event CPM designation beginning in the middle of month A, due to a commitment to a non-ISO counterparty beginning in month B. As demonstrated by this example, the resource has available capacity in month A, but the ISO is unable to access this capacity through a significant event CPM designation. Thus, the minimum term rule can prevent, and has in fact prevented, the ISO from accessing immediately needed (and immediately available) capacity.

Figure 2: status quo: resource unable to accept 30-day significant event CPM designation



To address this problem, the ISO proposes to give resources flexibility to voluntarily accept significant event CPM designations for less than 30 days at the discretion of the resource scheduling coordinator. For example, figure 3 (which illustrates proposal 4.2) shows the same resource as shown in figure 2, but with the flexibility to accept a 15-day significant event CPM designation. In practice, the ISO would continue to offer the resource a full-term designation. With proposal 4.2 implemented, however, the resource would have the flexibility to respond to the ISO with a request for a shorter term, and the ISO would have the authority to designate based on that shorter term – as requested by the resource scheduling coordinator. Importantly, the term would be continuous. For example, the resource would not be allowed to request two discontinuous 10-day terms that sum to 20 days. Also important, the term and MW value(s) associated with the significant event CPM award would be frozen once the designation is made. In other words, after the CPM designation is made and accepted, the resource would not be allowed to ask the ISO for a subsequent modification to the CPM.

Figure 3: proposal 4.2: resource has flexibility to accept 15-day significant event CPM designation



4.3. CPM reporting via OASIS

Today, the ISO has a tariff obligation to post a CPM designation report to its website after making CPM designations.¹¹ For each designated resource the report must include (among other requirements) the resource name, the amount of CPM capacity awarded, the type of designation, the term of the designation, a reason for the designation and the accepted offer price. For example, in October 2021, the ISO published a CPM designation report listing eight resources that the ISO designated for a significant event.¹² A screenshot of this report is pasted below in figure 4.

Figure 4: Screenshot of October 2021 Significant Event CPM Designations Report

October 2021 Significant Event Capacity Procurement Mechanism Designations Report

Designation Summary:

In October 2021, the California ISO issued Significant Event Capacity Procurement Mechanism (CPM) designations to multiple generating units. The designations' effective dates are listed in the table below and have a 30-day term. Prior designations have been included in a previous report.

CPM Significant Event Designations

Amount and Cost:

Resource ID	CPM MWs	Designated Start Date	CPM Type	Price \$/kW-mon	Tac Area
OMAR_2_UNIT_1	2.32	10/1/2021	SIG EVT	6.31	SYS
OMAR_2_UNIT_2	2.12	10/1/2021	SIG EVT	6.31	SYS
OMAR_2_UNIT_3	2	10/1/2021	SIG EVT	6.31	SYS
OMAR_2_UNIT_4	2	10/1/2021	SIG EVT	6.31	SYS
SYCAMR_2_UNIT_1	3	10/1/2021	SIG EVT	6.31	SYS
SYCAMR_2_UNIT_2	8	10/1/2021	SIG EVT	6.31	SYS
JAWBNE_2_SRWWD2	2.36	10/1/2021	SIG EVT	6.31	SYS
GATEWT_2_GESBT1	5	10/1/2021	SIG EVT	6.31	SYS

Reason for CPM Significant Event Designations:

The California ISO (ISO) issued CPM Significant Event designations to the resources listed above to address a CPM Significant Event. A CPM Significant Event is "a substantial event, or a combination of events, that is determined by the CAISO to either result in a material difference from what was assumed in the resource adequacy program for purposes of determining the Resource Adequacy Capacity requirements, or produce a material change in system conditions or in CAISO Controlled Grid operations, that causes, or threatens to cause, a failure to meet Reliability Criteria absent the recurring use of a non-Resource Adequacy resource(s) on a prospective basis."

The ISO proposes to adjust its tariff language to allow for more efficient CPM designation reporting. More specifically, the ISO proposes to meet its CPM designation reporting obligations through its open access same-time information system (OASIS), which already receives CPM designation information from the ISO's CIRA application. As part of this proposal, the ISO plans to remove the tariff requirement (under section 43A.6.2) for the ISO to post a market notice when the CPM designation report is available. To be clear, the ISO would still be obligated to post an initial market notice, as stated in ISO

¹¹ ISO tariff section 43A.6.2

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

CPM designation reports are posted on the ISO's website at the following location:

<https://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=33EB5656-7056-4B8E-87B2-3EA3D816DA62>

¹² October 2021 Significant Event CPM Designations Report

<https://www.caiso.com/Documents/October2021SignificantEventCPMReport.pdf>

tariff section 43A.6.1 and as explained below in proposal 4.4. Figure 5 below shows what an OASIS-produced CPM designation report might look like.

Figure 5: Preliminary Mock-Up of OASIS CPM Designation Report

RESOURCE_ID	RESOURCE_NAME	PERIOD_TYPE	CPM_TYPE	CPM_MW	CPM_PRICE	START_DATE	END_DATE	DURATION	DESIGNATION_DETAILS
CALBCH_1_TEST	California Beach	INTRAMONTHLY	SIG EVT	60	6310	6/1/2021	7/1/2021	30	Significat Event CPM for Summer 2021
CALHLS_1_TEST	California Hills	INTRAMONTHLY	ED	100	6310	9/1/2021	10/31/2021	60	Exceptional Dispatch CPM to mitigate a local reliability need in the Hubmoldt area

4.4. CPM market notices

Today, the ISO has a tariff obligation to post market notices within two business days of making a CPM designation.¹³ These notices include essential information about the designation, including which resource received a designation, how much capacity was designated, and the price of the designation. The ISO proposes to extend the CPM designation market notice deadline from two business days to five business days. The two business day requirement has posed a challenge for the ISO to complete all of the requisite activities in a timely manner. The ISO’s proposal will ensure the ISO has sufficient time to collect the information needed for the market notice, undertake the proper reviews, obtain necessary approvals, and issue the market notice in a timely manner. For example, when the ISO makes an exceptional dispatch CPM designation (which can happen anytime a reliability need occurs), the ISO must quickly take several actions, including the following: a.) confirming the MWs needed; b.) confirming the MWs that responded to the dispatch; c.) confirming the reason for the exceptional dispatch; d.) drafting a market notice; e.) getting the market notice reviewed and approved by the multiple teams that are involved in the process; and f.) posting the market notice. Extending the CPM designation market notice deadline from two business days to five business days will provide ISO staff with adequate time to accurately and effectively fulfill its tariff obligation.

4.5. CPM notifications to scheduling coordinators

The ISO proposes enhancements to the CIRA application to make the resource scheduling coordinator contact information visible to the resource’s scheduling coordinator and editable by the scheduling coordinator. The ISO proposes these enhancements so that CPM designation notifications are sent to the appropriate contacts for the scheduling coordinator receiving a capacity procurement mechanism designation. These changes will likely not require any tariff modifications.

5. ISO Responses to Stakeholder Feedback on Straw Proposal

The ISO greatly appreciates both the verbal and written feedback it received from stakeholders on the straw proposal. This stakeholder feedback was the basis for the changes reflected in this draft final

¹³ ISO tariff section 43A.6.1

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

proposal. More specifically, it was stakeholder feedback that prompted ISO staff to adjust proposal 4.1 and specify that the ISO be allowed to make mid-term significant event CPM award reductions only when the conflicting capacity commitments are accepted before the significant event CPM award is accepted. In addition, it was stakeholder feedback that prompted ISO staff to adjust proposal 4.2 – stating that resources should have the flexibility to accept shorter-term significant event CPM designations at the discretion of the resource scheduling coordinator. By adding the clause “at the discretion of the resource scheduling coordinator,” ISO staff has intentionally broadened the scope of proposal 4.2. With this adjustment, shorter-term significant event CPM designations can be used to avoid conflicts with capacity that is not visible to the ISO and can be used to avoid conflicts with planned outages (which are visible to the ISO).

In the sections directly below, the ISO provides responses to other stakeholder feedback on the straw proposal.

Significant event CPM award reductions reflected in OASIS

The ISO understands the request to have mid-term significant event CPM award (MW) reductions (proposal 4.1) reflected in the OASIS CPM designation report (proposal 4.3). The ISO will explore the feasibility of this request.

Significant event CPM term reductions reflected in OASIS

The ISO appreciates the request to have significant event CPM term reductions (proposal 4.2) reflected in the OASIS CPM designation report (proposal 4.3). The ISO agrees with this request and will ensure that shorter significant event CPM terms are reflected in the business requirement specifications associated with proposal 4.3.

CPM final costs in OASIS

The ISO understands the request to have resource-specific CPM final costs reflected in the OASIS CPM designation report (proposal 4.3). However, payments to resources receiving a CPM designation are subject to adjustments for, among other reasons, the Resource Adequacy Availability Incentive Mechanism (RAAIM).¹⁴ Settlements adjustments of this sort are subject to change through the ISO’s settlements process which runs for up to 24 months. For this reason, the final costs of a given CPM designation would not be certain for a significant period after the designation term has ended. As a result, this request would require substantial implementation work related to the ISO’s settlements system and to OASIS. In addition, there may be concerns from some market participants about the ISO posting resource-specific CPM final costs, which might include settlements adjustments. Accordingly, the ISO proposes to defer this request and may take this issue up in a subsequent track and/or stakeholder initiative.

¹⁴ ISO tariff section 43A

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

OASIS date ranges and consolidated CPM history

The ISO appreciates the request to have a multi-month date range available in OASIS for CPM-related data-pulls. The ISO agrees with this request and will ensure that multi-month date ranges are reflected in the business requirement specifications associated with proposal 4.3.

The ISO also understands the request to have all historical CPM designations reflected in OASIS. However, the ISO is limited on this front by what is in CIRA. Furthermore, attempting to upload historical CPM designations could cause confusion due to important historical nuances associated with particular CPM designations. Accordingly, the ISO cannot accommodate this request, and we instead refer stakeholders to the ISO website, where all of the historical CPM designation reports are posted.

Shorter-term exceptional dispatch CPMs

The ISO appreciates the question about whether proposal 4.2 should be applied to exceptional dispatch CPMs, thereby allowing for shorter-term exceptional dispatch CPMs. However, the ISO today is not prevented from exceptionally dispatching resources, even if those resources are subsequently unable to accept a 30-day exceptional dispatch CPM designation. Accordingly, the ISO does not need proposal 4.2 to access shorter-term capacity for exceptional dispatches.

Significant Event CPMs and supplemental revenues

The ISO appreciates the question about whether supplemental revenues might be applied to significant events and used as an alternative to proposal 4.2. More specifically, the idea would be for the ISO to use supplemental revenues as a resource compensation mechanism for shorter-term significant events, instead of relying on proposal 4.2. However, supplemental revenues are intended to compensate resources who *must* respond to exceptional dispatches but who subsequently decline exceptional dispatch CPM designations. By contrast, the ISO has no authority to make a mandatory significant event dispatch. Therefore, while the ISO appreciates the idea, it believes that proposal 4.2 is a clearer path forward.

CPM credits

The ISO appreciates the question about whether proposal 4.1 might interfere with CPM credits. More specifically, the concern is that proposal 4.1 might drive a need for CPM credits to be clawed back from LSEs. However, per ISO tariff section 43A.9, CPM credits do not apply to significant event CPM designations.

Evaluating CSP offers based on term

The ISO appreciates the idea to take term into account when evaluating competitive solicitation process offers. Theoretically, this idea could lead to greater efficiency in backstop procurement and associated ratepayer savings. However, the ISO does not have full visibility into term constraints during the initial evaluation stage of the competitive solicitation process. It is only after the competitive solicitation

process that such constraints may be revealed to the ISO. Therefore, the ISO must continue with its current process of evaluating CSP offers without initially taking term into account.

CPM and Resource Adequacy Availability Incentive Mechanism (RAAIM)

The ISO understands the concern that a resource on outage for the entire term of its CPM designation would still net 5.5% of its CPM revenues. This is because the non-availability charge for a resource providing CPM capacity is based on the difference between the lower bound of the monthly availability standard (94.5%) and the resource's monthly availability percentage, whereas the CPM revenue is based on 100% of the designated capacity.¹⁵ In other words, with respect to ISO capacity payments, a resource providing CPM capacity will always net at least 5.5% of its CPM revenues. This outcome is a byproduct of RAAIM design and the choice not to impose RAAIM charges until a resource falls below the 94.5 percent availability threshold. As long as the ISO allows a resource to perform at some level below 100 percent and still avoid RAAIM non-availability charges, this will still be an issue. Although this question of RAAIM design falls outside the scope of the CPM Enhancements Track 1 initiative, the ISO may examine RAAIM more broadly in the future.

CPM and Use-Limited Resources

The ISO appreciates the recommendation to take into account resource limitations (and more specifically, use-limitations such as starts per month) when making CPM designations. The ISO tariff does already allow the ISO to take such use-limitations into account when evaluating CSP offers.¹⁶

ISO visibility into resource commitments

The ISO appreciates the suggestion to make non-visible resource commitments visible to the ISO and may address this in a subsequent stakeholder initiative.

T-30 commercial operation deadline

The ISO understands the question about new generation resources that achieve commercial operation after the ISO's T-30 deadline and whether the ISO might allow such resources to become RA. However, the ISO cannot change the T-30 deadline, as there are numerous downstream ISO processes that rely on this timeline. In addition, for purposes of establishing wheeling priorities, non-ISO balancing authority areas that have capacity sourced within the ISO must identify the sources of that capacity by the T-30 deadline. Accordingly, the ISO cannot change the T-30 deadline without also addressing multiple related topics, none of which are in scope for this particular stakeholder initiative.

¹⁵ ISO tariff section 40.9.6.1(a)(2)

<http://www.caiso.com/Documents/Section40-ResourceAdequacyDemonstration-for-SchedulingCoordinatorsintheCaliforniaISOBalancingAuthorityArea-Jun1-2022.pdf>

¹⁶ ISO tariff section 43A.4.2.2

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

CPM and CPUC RA Reform

The ISO understands the recommendation to incorporate CPUC RA reform topics into track 1 of this stakeholder initiative. However, the ISO wants to keep track 1 focused on straight-forward operational changes to CPM that can be implemented relatively soon, and so the ISO will address interdependencies with CPUC RA reform topics in a subsequent track and/or stakeholder initiative.

6. Next Steps

The ISO will host a stakeholder call on September 23, 2022 from 9am to 11am (PST) to discuss this capacity procurement mechanism enhancements track 1 draft final proposal. Written stakeholder comments are due to the ISO by October 7, 2022.



Capacity Procurement Mechanism Enhancements

Track 1 Draft Final Proposal

September 16, 2022

Market & Infrastructure Policy

Capacity Procurement Mechanism Enhancements

Track 1 Draft Final Proposal

Table of Contents

1. Executive Summary.....	3
2. Stakeholder Process.....	4
3. Background on CPM	5
4. Proposal	7
4.1. Reducing the volume (MW) of significant event CPM designations when the designated capacity has already been is committed and visible to the ISO.....	7
4.2. Reducing the term of significant event CPM designations when the designated capacity has is already been committed but not visible or is unavailable to the ISO	9
4.3. CPM reporting via OASIS	11
4.4. CPM market notices.....	12
4.5. CPM notifications to scheduling coordinators.....	12
5. ISO Responses to Stakeholder Feedback on Straw Proposal	12
6. Next Steps	16

1. Executive Summary

The ISO uses its capacity procurement mechanism (CPM) to address resource adequacy (RA) deficiencies and potential reliability concerns. The ISO can use its CPM authority to address specific circumstances defined by the following six CPM designation types:¹

1. Insufficient local capacity area resources in an annual or monthly RA plan
2. A collective deficiency in local capacity area resources
3. Insufficient RA resources in a load-serving entity's annual or monthly RA plan
4. A CPM significant event
5. A reliability or operational need for an exceptional dispatch CPM
6. A cumulative deficiency in the total flexible RA capacity included in the annual or monthly flexible RA capacity plans, or in a flexible capacity category in the monthly flexible RA capacity plans

When the ISO makes CPM designations, it relies on capacity willingly offered to the ISO by resource owners. To attract such capacity, the ISO conducts annual, monthly and intra-monthly competitive solicitation processes, into which resource owners may offer their capacity to the ISO at prices up to a soft offer cap, currently set at \$6.31/kw-month.² Resource owners may also cost justify offers above the soft offer cap.

The CPM Enhancements stakeholder initiative is comprised of at least two tracks. Track 1 addresses five operational and process enhancement issues, and the ISO is planning to take Track 1 for approval at the December 2022 Board of Governors meeting. Track 2 will re-examine the CPM soft offer cap. It will be started at some point in the future and will likely require a longer stakeholder process than Track 1.

Summary of Track 1 Proposals:

Note: in response to stakeholder feedback on the straw proposal, the ISO has made adjustments to the first three of the following five proposals. In addition, the ISO plans to make a tariff clarification in conjunction with its first proposal. For more detail on stakeholder feedback and the ISO's perspective on such feedback, please refer to section 5 of this draft final proposal.

1. Reducing the volume (MW) of significant event CPM designations when the designated capacity has already been is committed and visible to the ISO: the ISO should be able to make mid-term significant event CPM award reductions if the designated capacity ~~receives~~ has already been committed (and shown to the ISO) for an RA contract, reliability must-run (RMR) contract or monthly CPM designation (referred to here as "other capacity commitments"). This will allow capacity designated for significant events to participate in RA and RMR contracts and accept

¹ ISO tariff section 43A.2

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

² ISO tariff section 43A.4.1.1

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

monthly CPM designations that may begin during the significant event CPM term. The ISO will only be allowed to make such mid-term significant event CPM award reductions when the other capacity commitments are accepted before the significant event CPM award is accepted. In conjunction with this proposal, the ISO plans to make a tariff clarification to more explicitly forbid CPM designated capacity from taking on new RA obligations that conflict with the CPM obligations. The ISO already has this type of authority and flexibility for exceptional dispatch CPM awards.

2. Reducing the term of significant event CPM designations when the designated capacity is has already been committed but not visible or is unavailable to the ISO: the ISO proposes to allow resource scheduling coordinators generators to voluntarily accept significant event CPM designations for less than 30 days at the resource scheduling coordinator's discretion. ~~when the designated capacity has already been committed to a counterparty for the upcoming month, but the commitment is not visible to the ISO.~~ For example, the resource scheduling coordinator may have sold the capacity for the following month to a counterparty outside the ISO, or the resource may have a planned outage in the following month. This proposal will allow generators resource scheduling coordinators with capacity sold to a counterparty that is unavailable to the ISO for the following month to accept mid-month shorter-term significant event CPM designations, providing the ISO with more immediate access to available capacity. This proposal is similar to the proposal directly above proposal 4.1, but it allows for shorter terms (instead of reduced volumes) and also explicitly addresses commitments that are not currently visible to the ISO (such as commitments to counterparties outside the ISO), whereas proposal 4.1 deals exclusively with commitments that are visible to the ISO at the time of designation.
3. CPM reporting via OASIS: the ISO proposes to meet its obligation to post CPM designation reporting obligations reports (tariff section 43A.6.2) through its open access same-time information system (OASIS), which now receives CPM designation information directly from the ISO's customer interface for resource adequacy (CIRA) application.
4. CPM market notices: the ISO proposes to extend the CPM designation market notice deadline from two business days to five business days. This will ensure the ISO has sufficient time to collect the information needed for the market notice, undertake the proper reviews, obtain necessary approvals, and issue the market notice in a timely manner.
5. CPM notifications to scheduling coordinators: the ISO proposes to make the resource scheduling coordinator contact information directly visible and editable in CIRA to avoid CPM designation notifications being sent to an outdated contact.

2. Stakeholder Process

The Capacity Procurement Mechanism (CPM) Enhancements stakeholder initiative is comprised of at least two tracks. Track 1 addresses operational and process enhancement issues and is the focus of this draft final proposal. As shown in Table 1 below, the ISOs plans to seek Track 1 approval at the December

2022 Board of Governors meeting and implement Track 1 in 2023. Track 2 will re-examine the CPM soft offer cap and will likely require a longer stakeholder process. Track 2 will have a separate Board of Governors presentation and a later implementation timeline.

Table 1: CPM Enhancements Stakeholder Initiative Schedule

Date	Track 1 Milestone
July 28, 2022	Publish straw proposal
August 4, 2022	Stakeholder call on straw proposal
August 18, 2022	Due date for stakeholder comments on straw proposal
September 16, 2022	Publish draft final proposal
September 23, 2022	Stakeholder call on draft final proposal
October 7, 2022	Due date for stakeholder comments on draft final proposal
November 3, 2022	Publish draft tariff language
November 8, 2022	Publish final proposal
November 15, 2022 <i>(now avoids Thanksgiving week)</i>	Stakeholder call on draft tariff language and final proposal
November 17, 2022	Due date for stakeholder comments on draft tariff language
December 15, 2022	Board of Governors presentation
2023	FERC filing and implementation

3. Background on CPM

The ISO uses its capacity procurement mechanism (CPM) to address RA deficiencies and other potential reliability concerns. The ISO’s use of its CPM authority is often referred to as “backstop” procurement, required when sufficient capacity has not been procured through the RA program. The ISO’s backstop procurement authority also includes reliability must-run (RMR) contracts, which the ISO uses to retain resources that would otherwise retire but the ISO determines are needed to maintain reliable grid operations based on the results of technical studies and analyses.³ The ISO can use its CPM authority to procure capacity that is not committed RA capacity or RMR capacity to address specific circumstances defined by the six CPM designation types listed in Table 2. The ISO does not use RMR authority to backstop RA deficiencies.

³ ISO tariff section 41

<http://www.caiso.com/Documents/Section41-Procurement-RMRResources-asof-Sep28-2019.pdf>

Table 2: CPM Designation Types⁴

#	CPM Designation Type
1	Insufficient local capacity area resources in an annual or monthly RA plan
2	A collective deficiency in local capacity area resources
3	Insufficient RA resources in an LSE's annual or monthly RA plan
4	A CPM significant event
5	A reliability or operational need for an exceptional dispatch CPM
6	A cumulative deficiency in the total flexible RA capacity included in the annual or monthly flexible RA capacity plans, or in a flexible capacity category in the monthly flexible RA capacity plans

When the ISO needs to make CPM designations, it relies on capacity willingly offered to the ISO by resource owners. To attract such capacity, the ISO conducts annual, monthly and intra-monthly competitive solicitation processes, in which resource owners may offer their capacity to the ISO at prices up to a soft offer cap, currently set at \$6.31/kw-month. Any offers above the soft offer cap must be cost-justified at FERC to recover up to a resource-specific cost of service rate.⁵

The existing soft offer cap of \$6.31/kw-month was set during the ISO's capacity procurement mechanism replacement stakeholder initiative and was based on a subset of combined cycle fixed costs, as published by the California Energy Commission (CEC).⁶ The ISO has a tariff obligation to open a stakeholder initiative every four years (at the latest) to examine the soft offer cap and consider whether it needs to be changed. In its capacity procurement mechanism soft offer cap stakeholder initiative, the ISO met that tariff obligation by considering updated combined cycle fixed costs published by the CEC in May 2019.⁷ In Track 2 of this CPM Enhancements stakeholder initiative and in accordance with its tariff obligation, the ISO plans to re-examine the soft offer cap and consider other potential enhancements.

⁴ ISO tariff section 43A.2

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

⁵ ISO tariff section 43A.4.1.1.1

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

⁶ ISO's Capacity Procurement Mechanism Replacement stakeholder initiative:

<http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=bfe609ff-a9a1-4828-bf01-51a495bef7e2>

The current Soft Offer Cap of \$6.31/kw-month is the monthly equivalent of \$75.67/kw-year, which is equal to 120% x \$63.06/kw-year. \$63.06/kw-year is the levelized going-forward fixed cost (fixed O&M, ad valorem taxes, insurance) of a 550 MW advanced combined cycle resource with duct firing, as published by the California Energy Commission in its 2014-2015 study "Cost of New Renewable and Fossil Generation in California."

⁷ ISO's Capacity Procurement Mechanism Soft Offer Cap stakeholder initiative:

<https://stakeholdercenter.caiso.com/StakeholderInitiatives/Capacity-procurement-mechanism-soft-offer-cap>

Estimated Cost of New Utility-Scale Generation in California: 2018 Update, CEC, May 2019

<https://www.energy.ca.gov/sites/default/files/2021-06/CEC-200-2019-005.pdf>

The ISO's capacity procurement mechanism process starts with a competitive solicitation process where resource owners submit offers through the ISO's customer interface for resource adequacy (CIRA) application. The ISO's submission window requires offers to be submitted prior to any announcement of whether capacity might be needed by the ISO for a CPM designation. After offers are submitted and the adjustment window is closed, the ISO validates the offers to ensure the capacity is uncontracted. If there is a CPM need, the ISO will then select resources that meet the designation criteria at the lowest total cost. If there are insufficient offers, the ISO can offer CPM designations at the soft offer cap to capacity not offered into the competitive solicitation process.

As mentioned above, resource owners may offer their capacity to the ISO at prices above the soft offer cap, but they must cost-justify such offers at FERC based on the resource-specific going forward fixed costs, *i.e.*, fixed operation and maintenance costs, ad valorem taxes and insurance. There are two important differences between the calculation of the above-cap cost of service rate and derivation of the soft offer cap: a.) the cost of service rate is based on resource-specific inputs, whereas the soft offer cap is based on a generic 550 MW advanced combined cycle resource with duct firing; and b.) the cost of service rate calculation does not include a 20% adder, whereas the soft offer cap derivation does include a 20% adder. These differences were reflected in a May 2022 compliance filing that the ISO submitted to FERC, finalizing the above-cap cost of service rate calculation methodology.⁸

4. Proposal

In Track 1, the ISO proposes to address five CPM operational and process issues, as summarized and detailed below:

- Proposal 4.1 addresses significant event CPM awards and mid-term reductions in volume (MW) required by the ISO. ~~how such awards dovetail with commitments that are visible to the ISO.~~
- Proposal 4.2 addresses significant event CPM awards and reductions in term at the discretion of the resource scheduling coordinator. ~~how such awards dovetail with commitments that are not visible to the ISO.~~
- Proposal 4.3 addresses CPM reporting.
- Proposal 4.4 addresses CPM market notices.
- Proposal 4.5 addresses CPM notifications to scheduling coordinators.

4.1. Reducing the volume (MW) of significant event CPM designations when the designated capacity has already been committed and visible to the ISO

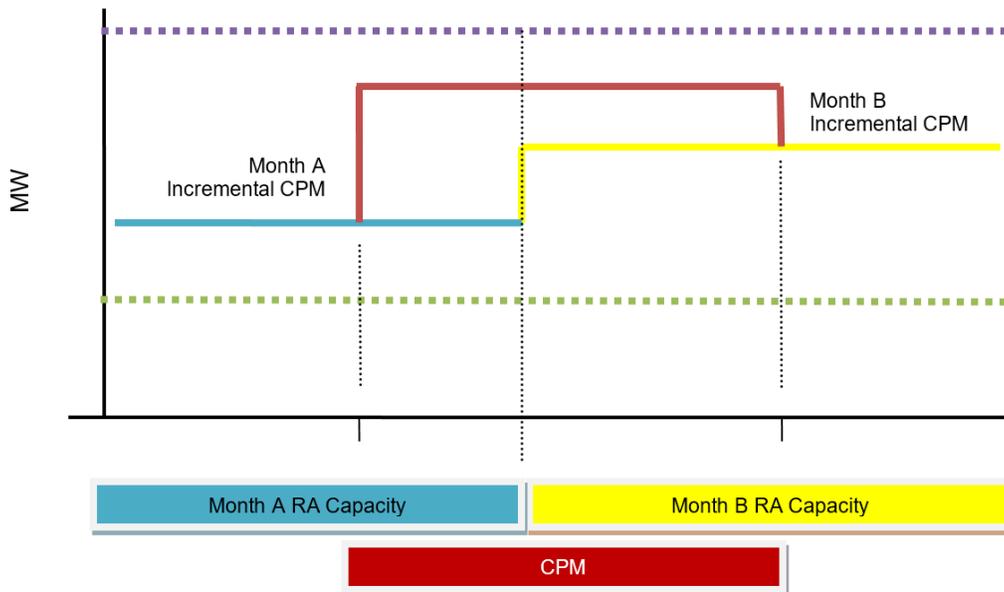
The ISO proposes that it have the ability to reduce significant event CPM awards as follows: if capacity that receives a significant event designation ~~becomes~~ is already shown as RA capacity or ~~receives~~ has received a monthly CPM designation or ~~receives~~ is under an RMR contract as of a certain date, then the

⁸ Docket ER20-1075, ISO compliance filing to FERC, 5/23/22
<https://www.caiso.com/Documents/May23-2022-ComplianceFiling-CapacityProcurementMechanism-CPM-above-SoftOfferCap-ER20-1075.pdf>

significant event CPM designation shall be reduced by the amount of the new RA capacity, monthly CPM designation, or RMR contract (referred to here as “other capacity commitments”) from that date through the rest of the CPM designation term. The ISO will only be allowed to make such mid-term significant event CPM award reductions when the other capacity commitments are accepted before the significant event CPM award is accepted. This proposal will allow capacity designated for significant events to participate in RA and RMR contracts and accept monthly CPM designations that may begin during the term of the significant event CPM designation. The ISO already has this type of authority for exceptional dispatch CPM awards (as explained and illustrated below), and it is appropriate to extend such authority to include significant event CPM awards. Like exceptional dispatch CPMs, significant event CPMs can span multiple calendar months, and the resource’s RA Capacity, RMR status and designations for monthly CPM awards may change during the term of the significant event CPM.

The ISO today has the authority to make mid-term reductions to exceptional dispatch CPM awards when the designated capacity receives an RA, monthly CPM, or RMR contract.⁹ Figure 1 below shows a resource with RA contracts in months A and B and a 30-day exceptional dispatch CPM award that includes both months. As shown in the chart, the RA volumes increase from month A to month B, and the CPM award is decreased accordingly, keeping the total capacity awards unchanged and at the required level.

Figure 1: Illustration of ISO’s existing authority related to Exceptional Dispatch CPM Awards¹⁰



The ISO proposes to apply this same logic to significant event CPM awards, providing the ISO with the flexibility to make a CPM designation that can volumetrically change from one calendar month to the next, if warranted by changes in RA, CPM, or RMR volumes. For example, consider a resource with 100

⁹ ISO Tariff Section 43A.2.5.2.4

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

¹⁰ ISO business practice manual for reliability requirements, section 12.3.2

<https://bpmcm.caiso.com/Pages/BPMDetails.aspx?BPM=Reliability%20Requirements>

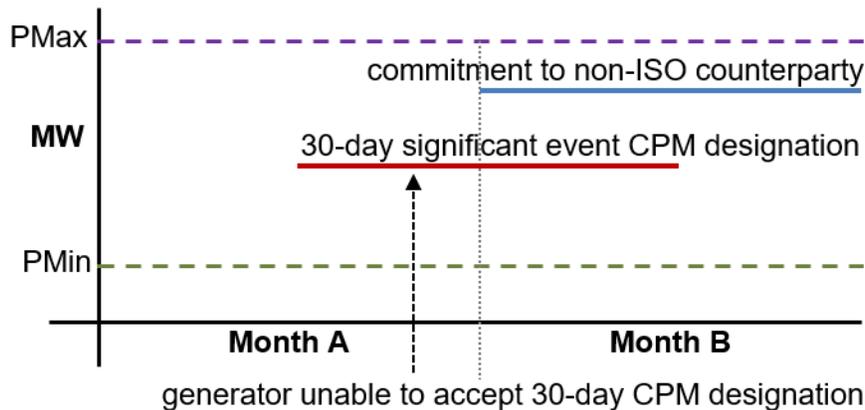
MW of net qualifying capacity across the year. Next, consider that this particular resource has shown to the ISO 40 MW of RA in month A and 70 MW of RA in month B. Finally, consider that the ISO wants to designate this resource for a 50 MW significant event CPM award beginning in the middle of month A. With proposal 4.1 implemented, the ISO will be able to move forward with such a CPM designation, because it will have the authority to decrease the CPM award from 50 MW to 20 MW in month B, corresponding to the increase in the shown RA from 40 MW to 70 MW. This will allow the ISO to take full advantage of uncontracted capacity in a specific calendar month, even if that uncontracted volume is not available for a full 30 days. Without this proposed flexibility, the ISO will remain unable to make significant event CPM designations for capacity it needs immediately if such capacity would become RA, RMR, or monthly CPM capacity during the term of the CPM designation.

In conjunction with proposal 4.1, the ISO plans to clarify the tariff to forbid resources from taking on new RA obligations after they have accepted a CPM designation if those new RA obligations conflict with the CPM obligations. For example, consider a resource with 100 MW of NQC with no existing RA obligations that accepts a 30-day CPM designation for 80 MW on April 15. Through May 14, that resource would not be allowed to take on additional RA obligations that exceed the 20 MW of remaining NQC. In general, the timing of the RA showings process already addresses this concern. In this example, the RA showing deadlines for May would have already passed by the time the CPM designation occurred. However, in cases of longer-term CPM designations or with availability to serve as RA substitute capacity there potentially could be a concern. Adding minor clarifying language to the tariff to address this possibility will help reinforce the principles that resources voluntarily accepting a CPM designation: (a) will be held to the term of designation they accept; and (b) never will be allowed to sell the same MW of capacity twice.

4.2. Reducing the term of significant event CPM designations when the designated capacity ~~has is~~ already been committed ~~but not visible~~ or is unavailable to the ISO

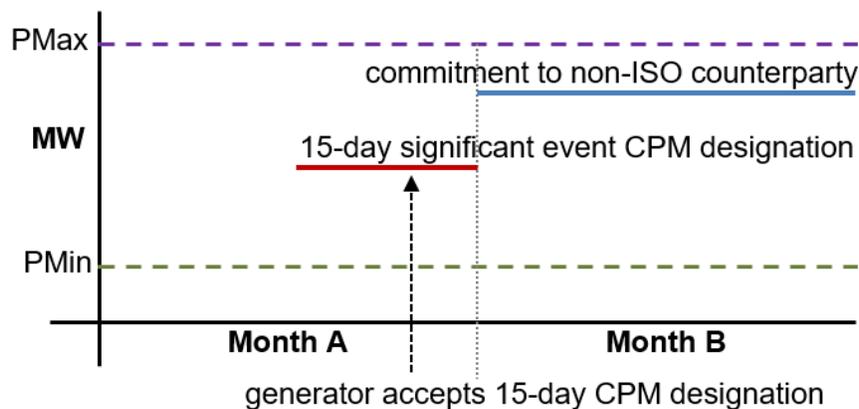
Under current CPM rules, the minimum term for a significant event CPM designation is 30 days. Because of this rule, a resource scheduling coordinator may have to reject a mid-month significant event CPM designation because the designated capacity has an existing commitment or is unavailable ~~resource owner has sold the capacity to a counterparty as non-RA capacity~~ for the following month and, as such, the resource ~~owner~~ scheduling coordinator is not able to accept a 30-day minimum designation term. For example, figure 2 below (which illustrates the status quo) shows a resource that is unable to accept a 30-day significant event CPM designation beginning in the middle of month A, due to a commitment to a non-ISO counterparty beginning in month B. As demonstrated by this example, the resource has available capacity in month A, but the ISO is unable to access this capacity through a significant event CPM designation. Thus, the minimum term rule can prevent, and has in fact prevented, the ISO from accessing immediately needed (and immediately available) capacity.

Figure 2: status quo: resource unable to accept 30-day significant event CPM designation



To address this problem, the ISO proposes to give ~~generators~~ **resources** flexibility to voluntarily accept significant event CPM designations for less than 30 days **at the discretion of the resource scheduling coordinator**. ~~when the designated capacity has already been committed to a counterparty for the upcoming month, but the commitment is not visible to the ISO.~~ For example, figure 3 (which illustrates proposal 4.2) shows the same resource as shown in figure 2, but with the flexibility to accept a 15-day significant event CPM designation. In practice, the ISO would continue to offer the resource a full-term designation. With proposal 4.2 implemented, however, the resource would have the flexibility to respond to the ISO with a request for a shorter term, and the ISO would have the authority to designate based on that shorter term – as requested by the resource scheduling coordinator. Importantly, the term would be continuous. For example, the resource would not be allowed to request two discontinuous 10-day terms that sum to 20 days. Also important, the term and MW value(s) associated with the significant event CPM award would be frozen once the designation is made. In other words, after the CPM designation is made and accepted, the resource would not be allowed to ask the ISO for a subsequent modification to the CPM.

Figure 3: proposal 4.2: resource has flexibility to accept 15-day significant event CPM designation



4.3. CPM reporting via OASIS

Today, the ISO has a tariff obligation to post a CPM designation report to its website after making CPM designations.¹¹ For each designated resource the report must include (among other requirements) the resource name, the amount of CPM capacity awarded, the type of designation, the term of the designation, a reason for the designation and the accepted offer price. For example, in October 2021, the ISO published a CPM designation report listing eight resources that the ISO designated for a significant event.¹² A screenshot of this report is pasted below in ~~figure 2~~ figure 4.

Figure 2 Figure 4: Screenshot of October 2021 Significant Event CPM Designations Report

October 2021 Significant Event Capacity Procurement Mechanism Designations Report

Designation Summary:

In October 2021, the California ISO issued Significant Event Capacity Procurement Mechanism (CPM) designations to multiple generating units. The designations' effective dates are listed in the table below and have a 30-day term. Prior designations have been included in a previous report.

CPM Significant Event Designations

Amount and Cost:

Resource ID	CPM MWs	Designated Start Date	CPM Type	Price \$/kW-mon	Tac Area
OMAR_2_UNIT_1	2.32	10/1/2021	SIG EVT	6.31	SYS
OMAR_2_UNIT_2	2.12	10/1/2021	SIG EVT	6.31	SYS
OMAR_2_UNIT_3	2	10/1/2021	SIG EVT	6.31	SYS
OMAR_2_UNIT_4	2	10/1/2021	SIG EVT	6.31	SYS
SYCAMR_2_UNIT_1	3	10/1/2021	SIG EVT	6.31	SYS
SYCAMR_2_UNIT_2	8	10/1/2021	SIG EVT	6.31	SYS
JAWBNE_2_SRWWD2	2.36	10/1/2021	SIG EVT	6.31	SYS
GATEWT_2_GESBT1	5	10/1/2021	SIG EVT	6.31	SYS

Reason for CPM Significant Event Designations:

The California ISO (ISO) issued CPM Significant Event designations to the resources listed above to address a CPM Significant Event. A CPM Significant Event is "a substantial event, or a combination of events, that is determined by the CAISO to either result in a material difference from what was assumed in the resource adequacy program for purposes of determining the Resource Adequacy Capacity requirements, or produce a material change in system conditions or in CAISO Controlled Grid operations, that causes, or threatens to cause, a failure to meet Reliability Criteria absent the recurring use of a non-Resource Adequacy resource(s) on a prospective basis."

The ISO proposes to adjust its tariff language to allow for more efficient CPM designation reporting. More specifically, the ISO proposes to meet its CPM designation reporting obligations through its open access same-time information system (OASIS), which already receives CPM designation information from the ISO's CIRA application. *As part of this proposal, the ISO plans to remove the tariff requirement (under section 43A.6.2) for the ISO to post a market notice when the CPM designation report is available. To be clear, the ISO would still be obligated to post an initial market notice, as stated in ISO*

¹¹ ISO tariff section 43A.6.2

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

CPM designation reports are posted on the ISO's website at the following location:

<https://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=33EB5656-7056-4B8E-87B2-3EA3D816DA62>

¹² October 2021 Significant Event CPM Designations Report

<https://www.caiso.com/Documents/October2021SignificantEventCPMReport.pdf>

tariff section 43A.6.1 and as explained below in proposal 4.4. ~~Figure 3~~ **Figure 5** below shows what an OASIS-produced CPM designation report might look like.

Figure 3 Figure 5: Preliminary Mock-Up of OASIS CPM Designation Report

RESOURCE_ID	RESOURCE_NAME	PERIOD_TYPE	CPM_TYPE	CPM_MW	CPM_PRICE	START_DATE	END_DATE	DURATION	DESIGNATION_DETAILS
CALBCH_1_TEST	California Beach	INTRAMONTHLY	SIG EVT	60	6310	6/1/2021	7/1/2021	30	Significat Event CPM for Summer 2021
CALHLS_1_TEST	California Hills	INTRAMONTHLY	ED	100	6310	9/1/2021	10/31/2021	60	Exceptional Dispatch CPM to mitigate a local reliability need in the Hubmoldt area

4.4. CPM market notices

Today, the ISO has a tariff obligation to post market notices within two business days of making a CPM designation.¹³ These notices include essential information about the designation, including which resource received a designation, how much capacity was designated, and the price of the designation. The ISO proposes to extend the CPM designation market notice deadline from two business days to five business days. The two business day requirement has posed a challenge for the ISO to complete all of the requisite activities in a timely manner. The ISO's proposal will ensure the ISO has sufficient time to collect the information needed for the market notice, undertake the proper reviews, obtain necessary approvals, and issue the market notice in a timely manner. For example, when the ISO makes an exceptional dispatch CPM designation (which can happen anytime a reliability need occurs), the ISO must quickly take several actions, including the following: a.) confirming the MWs needed; b.) confirming the MWs that responded to the dispatch; c.) confirming the reason for the exceptional dispatch; d.) drafting a market notice; e.) getting the market notice reviewed and approved by the multiple teams that are involved in the process; and f.) posting the market notice. Extending the CPM designation market notice deadline from two business days to five business days will provide ISO staff with adequate time to accurately and effectively fulfill its tariff obligation.

4.5. CPM notifications to scheduling coordinators

The ISO proposes enhancements to the CIRA application to make the resource scheduling coordinator contact information visible to the resource's scheduling coordinator and editable by the scheduling coordinator. The ISO proposes these enhancements so that CPM designation notifications are sent to the appropriate contacts for the scheduling coordinator receiving a capacity procurement mechanism designation. These changes will likely not require any tariff modifications.

5. ISO Responses to Stakeholder Feedback on Straw Proposal

The ISO greatly appreciates both the verbal and written feedback it received from stakeholders on the straw proposal. This stakeholder feedback was the basis for the changes reflected in this draft final

¹³ ISO tariff section 43A.6.1

<http://www.cao.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

proposal. More specifically, it was stakeholder feedback that prompted ISO staff to adjust proposal 4.1 and specify that the ISO be allowed to make mid-term significant event CPM award reductions only when the conflicting capacity commitments are accepted before the significant event CPM award is accepted. In addition, it was stakeholder feedback that prompted ISO staff to adjust proposal 4.2 – stating that resources should have the flexibility to accept shorter-term significant event CPM designations at the discretion of the resource scheduling coordinator. By adding the clause “at the discretion of the resource scheduling coordinator,” ISO staff has intentionally broadened the scope of proposal 4.2. With this adjustment, shorter-term significant event CPM designations can be used to avoid conflicts with capacity that is not visible to the ISO and can be used to avoid conflicts with planned outages (which are visible to the ISO).

In the sections directly below, the ISO provides responses to other stakeholder feedback on the straw proposal.

Significant event CPM award reductions reflected in OASIS

The ISO understands the request to have mid-term significant event CPM award (MW) reductions (proposal 4.1) reflected in the OASIS CPM designation report (proposal 4.3). The ISO will explore the feasibility of this request.

Significant event CPM term reductions reflected in OASIS

The ISO appreciates the request to have significant event CPM term reductions (proposal 4.2) reflected in the OASIS CPM designation report (proposal 4.3). The ISO agrees with this request and will ensure that shorter significant event CPM terms are reflected in the business requirement specifications associated with proposal 4.3.

CPM final costs in OASIS

The ISO understands the request to have resource-specific CPM final costs reflected in the OASIS CPM designation report (proposal 4.3). However, payments to resources receiving a CPM designation are subject to adjustments for, among other reasons, the Resource Adequacy Availability Incentive Mechanism (RAAIM).¹⁴ Settlements adjustments of this sort are subject to change through the ISO’s settlements process which runs for up to 24 months. For this reason, the final costs of a given CPM designation would not be certain for a significant period after the designation term has ended. As a result, this request would require substantial implementation work related to the ISO’s settlements system and to OASIS. In addition, there may be concerns from some market participants about the ISO posting resource-specific CPM final costs, which might include settlements adjustments. Accordingly, the ISO proposes to defer this request and may take this issue up in a subsequent track and/or stakeholder initiative.

¹⁴ ISO tariff section 43A

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

OASIS date ranges and consolidated CPM history

The ISO appreciates the request to have a multi-month date range available in OASIS for CPM-related data-pulls. The ISO agrees with this request and will ensure that multi-month date ranges are reflected in the business requirement specifications associated with proposal 4.3.

The ISO also understands the request to have all historical CPM designations reflected in OASIS. However, the ISO is limited on this front by what is in CIRA. Furthermore, attempting to upload historical CPM designations could cause confusion due to important historical nuances associated with particular CPM designations. Accordingly, the ISO cannot accommodate this request, and we instead refer stakeholders to the ISO website, where all of the historical CPM designation reports are posted.

Shorter-term exceptional dispatch CPMs

The ISO appreciates the question about whether proposal 4.2 should be applied to exceptional dispatch CPMs, thereby allowing for shorter-term exceptional dispatch CPMs. However, the ISO today is not prevented from exceptionally dispatching resources, even if those resources are subsequently unable to accept a 30-day exceptional dispatch CPM designation. Accordingly, the ISO does not need proposal 4.2 to access shorter-term capacity for exceptional dispatches.

Significant Event CPMs and supplemental revenues

The ISO appreciates the question about whether supplemental revenues might be applied to significant events and used as an alternative to proposal 4.2. More specifically, the idea would be for the ISO to use supplemental revenues as a resource compensation mechanism for shorter-term significant events, instead of relying on proposal 4.2. However, supplemental revenues are intended to compensate resources who *must* respond to exceptional dispatches but who subsequently decline exceptional dispatch CPM designations. By contrast, the ISO has no authority to make a mandatory significant event dispatch. Therefore, while the ISO appreciates the idea, it believes that proposal 4.2 is a clearer path forward.

CPM credits

The ISO appreciates the question about whether proposal 4.1 might interfere with CPM credits. More specifically, the concern is that proposal 4.1 might drive a need for CPM credits to be clawed back from LSEs. However, per ISO tariff section 43A.9, CPM credits do not apply to significant event CPM designations.

Evaluating CSP offers based on term

The ISO appreciates the idea to take term into account when evaluating competitive solicitation process offers. Theoretically, this idea could lead to greater efficiency in backstop procurement and associated ratepayer savings. However, the ISO does not have full visibility into term constraints during the initial evaluation stage of the competitive solicitation process. It is only after the competitive solicitation

process that such constraints may be revealed to the ISO. Therefore, the ISO must continue with its current process of evaluating CSP offers without initially taking term into account.

CPM and Resource Adequacy Availability Incentive Mechanism (RAAIM)

The ISO understands the concern that a resource on outage for the entire term of its CPM designation would still net 5.5% of its CPM revenues. This is because the non-availability charge for a resource providing CPM capacity is based on the difference between the lower bound of the monthly availability standard (94.5%) and the resource's monthly availability percentage, whereas the CPM revenue is based on 100% of the designated capacity.¹⁵ In other words, with respect to ISO capacity payments, a resource providing CPM capacity will always net at least 5.5% of its CPM revenues. This outcome is a byproduct of RAAIM design and the choice not to impose RAAIM charges until a resource falls below the 94.5 percent availability threshold. As long as the ISO allows a resource to perform at some level below 100 percent and still avoid RAAIM non-availability charges, this will still be an issue. Although this question of RAAIM design falls outside the scope of the CPM Enhancements Track 1 initiative, the ISO may examine RAAIM more broadly in the future.

CPM and Use-Limited Resources

The ISO appreciates the recommendation to take into account resource limitations (and more specifically, use-limitations such as starts per month) when making CPM designations. The ISO tariff does already allow the ISO to take such use-limitations into account when evaluating CSP offers.¹⁶

ISO visibility into resource commitments

The ISO appreciates the suggestion to make non-visible resource commitments visible to the ISO and may address this in a subsequent stakeholder initiative.

T-30 commercial operation deadline

The ISO understands the question about new generation resources that achieve commercial operation after the ISO's T-30 deadline and whether the ISO might allow such resources to become RA. However, the ISO cannot change the T-30 deadline, as there are numerous downstream ISO processes that rely on this timeline. In addition, for purposes of establishing wheeling priorities, non-ISO balancing authority areas that have capacity sourced within the ISO must identify the sources of that capacity by the T-30 deadline. Accordingly, the ISO cannot change the T-30 deadline without also addressing multiple related topics, none of which are in scope for this particular stakeholder initiative.

¹⁵ ISO tariff section 40.9.6.1(a)(2)

<http://www.caiso.com/Documents/Section40-ResourceAdequacyDemonstration-for-SchedulingCoordinatorsintheCaliforniaISOBalancingAuthorityArea-Jun1-2022.pdf>

¹⁶ ISO tariff section 43A.4.2.2

<http://www.caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr22-2022.pdf>

[CPM and CPUC RA Reform](#)

The ISO understands the recommendation to incorporate CPUC RA reform topics into track 1 of this stakeholder initiative. However, the ISO wants to keep track 1 focused on straight-forward operational changes to CPM that can be implemented relatively soon, and so the ISO will address interdependencies with CPUC RA reform topics in a subsequent track and/or stakeholder initiative.

6. Next Steps

The ISO will host a stakeholder call on [September 23, 2022 from 9am to 11am \(PST\)](#) to discuss this capacity procurement mechanism enhancements track 1 [draft final proposal](#). Written stakeholder comments are due to the ISO by [October 7, 2022](#).