



California ISO

Central Procurement Entity Implementation

Issue Paper and Straw Proposal

November 15, 2021

Market & Infrastructure Policy

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1 Executive Summary

The CAISO has launched this initiative to develop tariff, business processes, and software in order to accommodate a central procurement entity (CPE) for procurement of local RA resources. The CAISO will also modify the current RAAIM settlement process.

For CPE Enhancements, CAISO proposes to:

- Recognize a central procurement entity as a market participant that will be represented by a scheduling coordinator.
- Accommodate obligations of the CPE. The CAISO plans to develop software enhancements to recognize instances where a CPE does not have a load share as the LRA has not assigned a system obligation to a CPE. This enhancement will apply to instances where the LSE is in a single TAC area or multiple TAC areas.
- Develop functionality to accept and validate system and flexible CPE flexible 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. This will also likely necessitate 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 RAAIM 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 reallocated annually, 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.

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 in those areas and satisfy CAISO planning standards.¹ The CAISO assigns

¹ For more information on this process see:

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

proportionate responsibility for the needed local capacity 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.² 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 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 (which would be counted towards the CPE's local obligation) and keep the entire system and flexible RA requirements for themselves. However, under this existing framework the CPE would still be subject to CPM cost allocation if that LSE failed to show that capacity to the CAISO.

² See CPUC D. 20-06-002

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

The CAISO tariff currently allows LSEs to aggregate responsibilities to procure Local Capacity Area Resources.³ 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 a CPE to CPUC-jurisdictional LSEs. The CAISO instead proposes to allow any LRA to designate a CPE to procure local resources on behalf of its LSEs and that LRAs jointly can designate a CPE to procure local resources on behalf of 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 general CPE construct for RA Year 2023.

3 Stakeholder Process

The CAISO is at the Issue Paper/Straw Proposal stage in the Central Procurement Entity Implementation (CPEI) stakeholder process. Figure 1 below shows the status of the straw proposal within the CPEI stakeholder initiative. Table 1 below shows the tentative schedule for each stage of the initiative.

The purpose of the issue paper/straw proposal is to present the background, scope, and solutions of issues to facilitate implementation of a central procurement entity construct in the CAISO’s tariff and business processes. After publication of the straw proposal and a stakeholder call, the CAISO will publish a draft final straw proposal, solicit stakeholder feedback, and then conclude with a final proposal.

³ 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.”

Figure 1: Stakeholder Process for CPEI Stakeholder Initiative

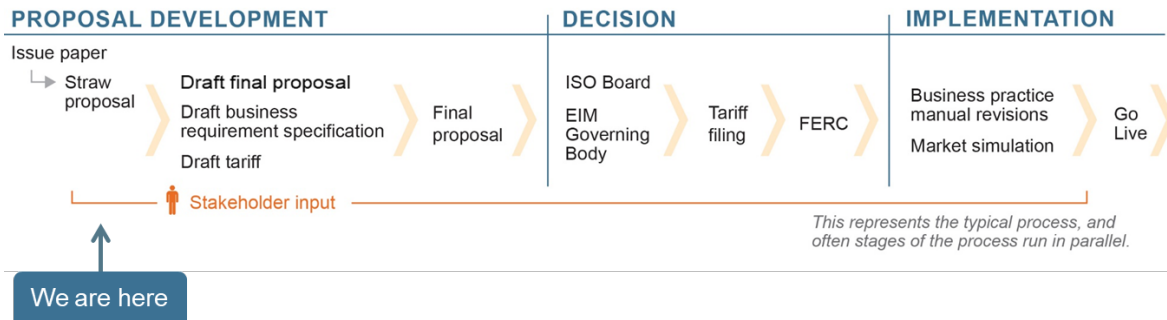


Table 1: Stakeholder Timeline

Date	Milestone
November 15, 2021	Issue Paper/Straw Proposal
November 22, 2021	Stakeholder meeting on Issue Paper/Straw Proposal
December 6, 2021	Stakeholder Comments due on Straw Proposal
December 2021	Draft Final Proposal and Draft Tariff
January 2022	Stakeholder meeting and comments on Draft Final Proposal
February 2022	Final Proposal and Revised Draft Tariff
February 2022	Stakeholder meeting and comments on Final Proposal
March 16-17, 2022	Present proposal to CAISO Board
October 2022	Implementation for RA Year 2023

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.”⁴ 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”.⁵ 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”.⁶

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 needs”.⁷ 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”.⁸

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

⁴ See CPUC D. 20-06-002 page 3.

⁵ See CPUC D. 20-06-002 page 91

⁶ See CPUC D. 20-06-002 page 91

⁷ See CPUC D. 20-06-002 page 91

⁸ See CPUC D. 20-06-002 page 94

backstop procurement, prices offered in the solicitation, which generators did not participate in the solicitation (if any), and other relevant information”.⁹

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.¹⁰

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”.¹¹ As a result, the final 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.

Given the short implementation timeframe, the CAISO must conduct its stakeholder process in parallel with the CPUC proceeding, and has asked for the Commission to give the CAISO firm guidance on remaining implementation details by February 2022 to allow the CAISO time to get any tariff changes

⁹ See CPUC D. 20-06-002 page 100

¹⁰ See CPUC D.20-12-006 for more details.

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

¹¹ See CPUC R. 21-10-002 page 5

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

approved by the Federal Energy Regulatory Commission (FERC) and software changes implemented by October 2022 for RA Year 2023.¹²

5 Straw Proposal

Today, 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”.¹³ 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.¹⁴

Procured local resources that satisfy the generation capacity requirements for Local Capacity Areas should be put on annual and monthly Resource Adequacy Plan(s). The CAISO will then validate 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 will be offered 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.¹⁵

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

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

¹³ See Tariff Section 40.3.1

¹⁴ See Tariff Section 40.2.3(a-b)

¹⁵ See Tariff Section 43A.8.1

5.1 Recognizing a Central Procurement Entity

The CAISO proposes to define a central procurement entity as a market participant that will be represented by a scheduling coordinator. The CAISO will need to 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 scope of this new market participant. If this new scope is added, a new pro forma agreement will need to be developed.

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 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.

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.¹⁶ 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 the LRA has not assigned a system obligation to a CPE (and thus the CPE has no load share), the CAISO proposes to exempt the CPE from this provision of the tariff and develop software enhancements to support this exemption. If not exempted, under the existing tariff the CPE’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 provision of the tariff 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.

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).

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 be able 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 LRA are allowed to determine whether these credits should be allowed to count towards the RA requirements adopted by the LRA.¹⁷ 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 as they see fit amongst its CPE(s) and LRA(s) in the same way they can reallocate RMR credits among their jurisdictional entities today.¹⁸

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. 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.

¹⁷ See Tariff Section 43A.9e

¹⁸ See Tariff Section 41.8

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 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 may elect to create a CPE in the future 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.

6 RAIM Settlement Process Enhancements

6.1 Background

The CAISO has identified an issue with the Resource Adequacy Availability Incentive Mechanisms (RAIM) settlements that requires modification. RAIM 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.¹⁹ 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 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.

This carry-forward mechanism has also reduced the effectiveness of the penalty and incentive structure of RAAIM. This carry-forward mechanism allows the resource that was penalized in one month to receive an allocation of funds in the future month. This carry-forward mechanism also allows an SC to hedge against its RA obligation. An SC with more than one RA resource in its portfolio can hedge against the penalty by ensuring that at least one or more of the other RA resources meet their obligations.

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

¹⁹ 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>

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.

Furthermore, the CAISO proposes to exclude market participants that have Transmission Ownership Rights (TOR) and Existing Transmission Contracts from the metered demand calculation. Existing Transmission Contracts entitle the SC to serve their Demand (Load + Export) from their supply resource (Generation + Import) using their transmission rights, and thus are not exposed to congestion charges. These schedules need to be self-scheduled in the market and do not require the market to dispatch RA generation to meet their load. This portion of load should not receive an allocation of excess funds because they are not dependent on their procured RA capacity to bid into the market to cover their load.

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 and not cross-subsidized by another month's performance. Therefore, this should also reduce the ability of SC's to hedge against performing on their RA obligations. 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.

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.

This proposed classification reflects the current state of this initiative and may change as the stakeholder process moves ahead. Stakeholders are encouraged to submit a response to the EIM classification of this initiative as described above in their written comments, particularly if they have concerns or questions.

8 Next Steps

The CAISO will discuss this issue paper/straw proposal with stakeholders during a stakeholder meeting on November 22, 2021. Stakeholders are asked to submit written comments by December 6, 2021 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>