



Central Procurement Entity Implementation – Issue Paper and Straw Proposal

Stakeholder Meeting
November 22, 2021

Housekeeping reminders

- This call is being recorded for informational and convenience purposes only. Any related transcriptions should not be reprinted without ISO's permission.
- Meeting is structured to stimulate dialogue and engage different perspectives.
- Please keep comments professional and respectful.
- Please try and be brief and refrain from repeating what has already been said so that we can manage the time efficiently.

Instructions for raising your hand to ask a question

- If you are connected to audio through your computer or used the “call me” option, select the raise hand icon  above the chat window located on bottom right corner of the screen. **Note:** #2 only works if you dialed into the meeting.
- If you need technical assistance during the meeting, please send a chat to the event producer.
- Please remember to state your name and affiliation before making your comment.
- You may also send your question via chat to either Kristina Osborne or all panelists.

Agenda

Time	Topic	Presenter
1:00-1:10	Welcome and Introduction	Kristina Osbourne
1:10-1:40	Background on CPUC orders on the Central Procurement Entity	Natalie Guishar, CPUC
1:40-3:10	Central Procurement Entity Straw Proposal	Bridget Sparks, Ph.D.
3:10-3:40	RAAIM Settlement Enhancements Background and Straw Proposal	James Lynn
3:40-3:50	EIM Governing Body Role	Bridget Sparks, Ph.D.
3:50-4:00	Next Steps	Kristina Osbourne

Stakeholder Process



We are here

Central Procurement Entity Implementation Policy Development Schedule

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 and Draft Tariff
February 2022	Final Proposal and Revised Draft Tariff
February 2022	Stakeholder meeting and comments on Final Proposal and Revised Draft Tariff
March 16-17, 2022	Present proposal to CAISO Board
October 2022	Implementation for RA Year 2023

* Dates are tentative and subject to change

CENTRAL PROCUREMENT ENTITY BACKGROUND

CPE IMPLEMENTATION STRAW PROPOSAL

Local Resource Adequacy: Existing Process

- CAISO conducts annual local capacity technical studies to determine
 - 1) minimum MWs of Local Capacity Area resources needed within each local area and sub-area
 - 2) identify the generating units within each local capacity area

Local Resource Adequacy: Existing Process cont.

- CAISO allocates these local requirements to direct procurement of local resources:
 - For non-CPUC jurisdiction LSEs, the CAISO directly allocates the local obligations pro-rata based on LSE's load in each TAC area
 - For CPUC jurisdictional LSEs, the CAISO sums the total need in each TAC area for each LSE and sends this to the CPUC, who can reallocate the requirements using a method of their choice
 - Any remaining requirement, will be assigned to LSEs using the CAISO default methodology

Local Resource Adequacy: Existing Process cont.

- Procured local resources that satisfy the generation capacity requirements for Local Capacity Areas are put on annual and monthly Resource Adequacy Plan(s)
- CAISO then validates the resulting portfolio of all shown RA resources covers the identified needs in the local capacity technical study
- LSEs are notified and offered a cure period if any deficiencies are identified

Local Resource Adequacy: Existing Process cont.

- 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 are first allocated to any individual deficient entities
- Any collective local deficiencies are allocated pro-rata to all LSEs in the TAC Area

Recognizing a Central Procurement Entity

- The CPE will be defined as a market participant and will be represented by a scheduling coordinator
 - CAISO may execute a pro-forma SC agreement with CPE
 - A new pro-forma agreement may need to be developed if new scope is added to the CPE SC
 - CAISO may add a new sub-section in tariff section 4 to define the scope of the CPE
 - Will be subject to the Scheduling Coordinator ID GMC Charge

Recognizing a Central Procurement Entity cont.

- The CPE will be responsible for submitting annual and monthly RA plans to the CAISO following existing RA plan submission timelines
- The CPE will be subject to late or missing submission penalties
- Although the CPUC ordered multi-year procurement for local RA, the CAISO will maintain its annual showing process
 - the CPE should plan to make annual showings with the CAISO

Recognizing a Central Procurement Entity: Local RA obligation allocation for CPUC jurisdictional LSEs

- The CAISO will continue to calculate the total local capacity area resource obligations of CPUC jurisdictional LSEs and transmit these to the CPUC
- The CPUC may allocate these local obligations to its LSEs using its own methodology, and if the CPUC does not allocate the total sum, the CAISO will allocate any remaining local obligation to relevant LSEs using the default methodology outlined in Section 40.3.2
- The CAISO proposes to modify Tariff section 40.3.2(a) to allow an LSE or CPE to be assigned a local RA obligation

Recognizing a Central Procurement Entity: Local RA obligation allocation for non-CPUC jurisdictional LSEs

- For non-CPUC jurisdictional LSEs, they will continue to be assigned a local obligation using the allocation methodology described in Section 40.3.2(a)
- CAISO proposes adding opportunities in which LRAs may choose to shift all or part of their LSEs' local RA obligation to the CPE
 - CAISO will also allow multiple LRAs to utilize/designate the same CPE

System and Local obligation of a CPE

- Since the CPE is a procurement entity it will not be assigned a load share
- Section 40.2.3(a) states that an LSE will not be assigned a local obligation in excess of their system obligation for the applicable month
- The CAISO proposes to exempt the CPE from this provision of the tariff and develop software enhancements to support this exemption
 - If not exempt, the CPE's local obligation would be capped at 0 MWs, and thus would not be committed to show capacity to meet its assigned local obligation

System and Local obligation for LSEs with Load in multiple TAC areas

- For LSEs that serve load in multiple TAC areas they will be allocated a local obligation in each TAC area
 - under the existing tariff provision 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

System and Local obligation for LSEs with Load in multiple TAC areas cont.

- The CAISO proposes to modify Section 40.3.2(a) 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
 - This should reduce the CPM cost allocation to be on par with LSEs who have load in a single TAC area

Allocation of System Attributes of Local RA Resources

- The system and local attributes of RA resources cannot be unbundled
- In recognition of this, the CPUC ordered the CPE 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
- The CAISO proposes to implement separate fields in the LRA Credit templates in CIRA to accept and validate system CPE credits (similar to existing system 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)

Allocation of Flexible Attributes of Local RA Resources

- 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 credits (similar to existing system CAM credits)
- 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)

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
- 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

Clarification of CPM Process and Cost Allocations cont.

- 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

Clarification of CPM Process and Cost Allocations cont.

- The CAISO will then have discretion to determine if additional capacity is needed to fulfill any remaining identified need
- The CAISO 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

Clarification of CPM Process and Cost Allocations cont.

- 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, 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
- 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
- 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

CPM Cost Allocation under the CPUC's Hybrid Procurement Framework

- 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
 - 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

CPM Cost Allocation under the CPUC's Hybrid Procurement Framework cont.

- CAISO will continue to evaluate the entire portfolio of shown RA resources in its CPM determination, and will pick up any voluntary showings made by LSEs who agreed with the CPE to self-show resources
- 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

CPM Cost Allocation under the CPUC's Hybrid Procurement Framework cont.

- 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
- This would 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 the CAISO CPMs additional capacity

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 or CPEs, 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

RAAIM SETTLEMENT ENHANCEMENTS

Background on RAIM settlement process

- 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
 - 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

Background on RAIM settlement process cont.

- 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 penalties above this limit are carried forward from month to month and distributed as incentive payments if applicable
- At the end of the year, any remaining unallocated RAIM penalties are distributed to metered demand (Generic) or LSE obligations (Flex)

RAAIM settlement process challenges

- This mechanism has created several challenges that were discussed in a CAISO waiver request filed at FERC:
 - The carry-forward mechanism creates a financial issue when a settlement recalculation determines that an RA resource is due a refund or reduction of RAAIM charges
 - The only possible source for the refund is from the pool of RAAIM penalties distributed in subsequent months or at year end to metered demand or LSE obligation.

RAAIM settlement process challenges cont.

- 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
 - It 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

RAAIM Settlement Enhancement Proposal

- The CAISO proposes to modify the current RAAIM settlement processes to eliminate the rule that unavailability charges assessed in excess of the monthly cap will roll-over to fund allocations in future months
- Rather than rolling excess funds into the next month, the CAISO proposes to allocate the excess based on activity in that trading month according to the allocation formula that currently applies to the year-end allocation
- The CAISO will allocate any excess RAAIM charges for Generic RA or Flexible RA to metered demand

RAAIM Settlement Enhancement Proposal cont.

- 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 from their supply using their transmission rights
 - 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

RAAIM Settlement Enhancement Proposal Benefits

- Eliminating the monthly roll-over ensures that the resettlement issues that necessitated the CAISO's April 10, 2020 waiver filing will not recur
- Allocating excess funds based on metered demand will simplify the calculation
- This will address the burden on the CAISO's reserve account by ensuring that RAAIM settlements charges and credits all take place within the month in which they are incurred

RAAIM Settlement Enhancement Proposal Benefits cont.

- Allocating the excess funds to metered demand, LSEs will be compensated for resources that did not perform in accordance to their RA contract obligations
- 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 eliminate the cross-subsidized by another month's performance
 - This should also reduce the ability of SC's to hedge against performing on their RA obligations

EIM GOVERNING BODY ROLE

Initiative scope falls outside of the EIM Governing Body joint authority

- 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”
 - The scope of this initiative falls outside the scope of joint authority

Initiative scope falls outside of the EIM Governing Body advisory role

- 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
- 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

NEXT STEPS

Comments

- 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>