



Capacity Procurement Mechanism Enhancements

Track 1 Straw Proposal

July 28, 2022

Market & Infrastructure Policy

Capacity Procurement Mechanism Enhancements

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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. 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 and will likely require a longer stakeholder process.

Summary of Track 1 Proposals:

1. [Reducing the volume \(MW\) of significant event CPM designations when the designated capacity 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 an RA contract, reliability must-run (RMR) contract or monthly CPM designation. This will allow capacity designated for significant events to participate in RA and RMR contracts and accept monthly CPM designations that may begin during the significant event CPM term. 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 already committed but not visible to the ISO](#): the ISO proposes to allow generators to voluntarily accept significant event CPM designations for less than 30 days when the designated capacity

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>

has already been committed to a counterparty for the upcoming month, but the commitment is not visible to the ISO. This will allow generators with capacity sold to a counterparty for the following month to accept mid-month significant event CPM designations, providing the ISO with more immediate access to available capacity. This proposal is similar to the proposal directly above, but it explicitly addresses commitments that are not visible to the ISO.

3. [CPM reporting via OASIS](#): the ISO proposes to meet its CPM designation reporting obligations 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 straw 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 17, 2022	Due date for stakeholder comments on draft tariff language
November 22, 2022	Stakeholder call on draft tariff language and final proposal
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 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.

Table 2: CPM Designation Types⁴

#	CPM Designation Type
1	Insufficient local capacity area resources in an annual or monthly RA plan
2	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,

³ ISO tariff section 41

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

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>

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.

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

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>

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>

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 how such awards dovetail with commitments that are visible to the ISO.
- Proposal 4.2 addresses significant event CPM awards and 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 is committed and visible to the ISO

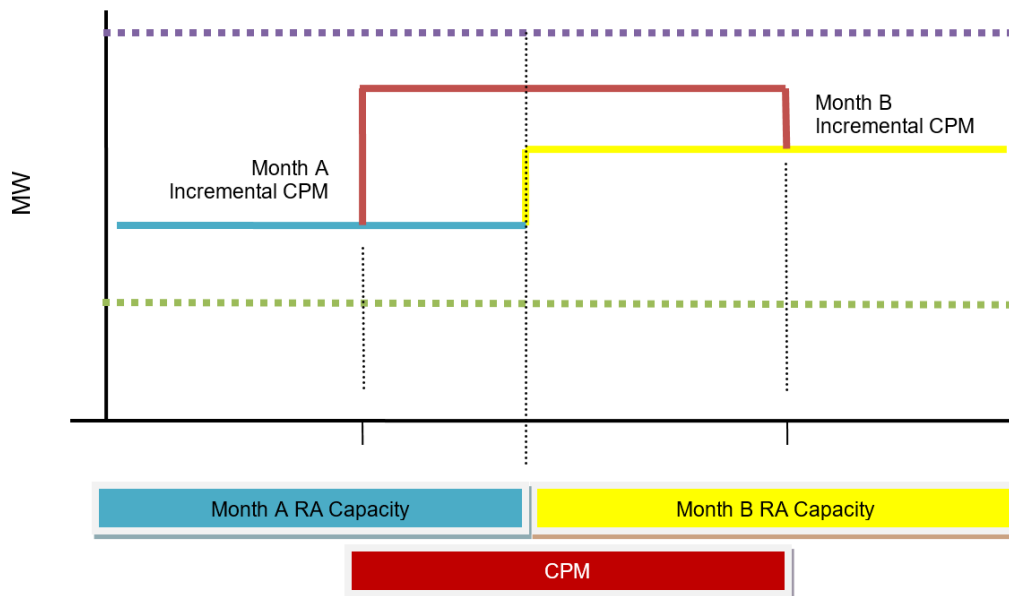
The ISO proposes that it have the ability to reduce significant event CPM awards as follows: “if capacity that receives a significant event designation becomes RA capacity or receives a monthly CPM designation or receives an RMR contract as of a certain date, then the significant event CPM designation shall be reduced by the amount of the new RA capacity, monthly CPM designation, or RMR contract from that date through the rest of the CPM designation term.” This 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.

⁹ ISO Tariff Section 43A.2.5.2.4

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

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. 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.

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

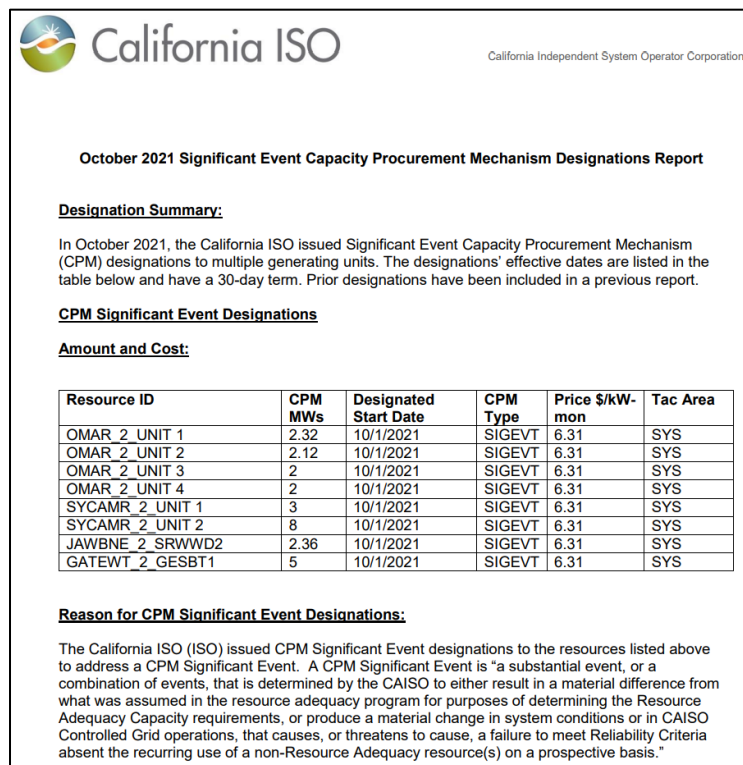
Under current CPM rules, the minimum term for a significant event CPM designation is 30 days. Because of this rule, a resource may have to reject a mid-month significant event CPM designation because the resource owner has sold the capacity to a counterparty as non-RA capacity for the following month and, as such, the resource owner is not able to accept a 30-day minimum designation term. Thus, the minimum term rule can prevent, and has in fact prevented, the ISO from accessing immediately needed (and immediately available) capacity. To address this problem, the ISO proposes to give generators flexibility to voluntarily accept significant event CPM designations for less than 30 days when the designated capacity has already been committed to a counterparty for the upcoming month, but the commitment is not visible to the ISO. Under this proposal, the resource would notify the ISO that it is unable to accept a full-term CPM designation and indicate the period of time and amount of capacity for which it will accept a CPM designation.

¹⁰ ISO business practice manual for reliability requirements, section 12.3.2
<https://bpmcm.caiso.com/Pages/BPMDetails.aspx?BPM=Reliability%20Requirements>

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 2: Screenshot of October 2021 Significant Event CPM Designations Report



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. Figure 3 below shows what an OASIS-produced CPM designation report might look like.

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>

Figure 3: 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. Next Steps

The ISO will host a stakeholder call on August 4, 2022 from 9am to noon (PST) to discuss this capacity procurement mechanism enhancements track 1 straw proposal. Written stakeholder comments are due to the ISO by August 18, 2022.

¹³ ISO tariff section 43A.6.1

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