CPUC Staff Comments on

Commitment Cost Enhancements Phase 3 (CCE 3)

Draft Final Straw Proposal

Submitted by	Company	Date Submitted
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Background

CPUC Staff appreciates the opportunity to offer these comments on the Commitment Cost Enhancements Phase 3 (CCE 3) Draft Final Straw Proposal. The purpose of the multiple phases of the CCE Initiative is to address the Market Surveillance Committee's (MSC) 2012 opinion that relying on use-plans for use-limited resources could result in the inefficient use of the unit's limited numbers of starts, run-hours, and total energy output. The "committee concluded that it would be more efficient to allow high start-up and minimum load bids that reflect opportunity costs of operation." In this Draft Final Proposal, CAISO proposes only to allow resources to submit higher start-up and minimum-load bids if they apply to be able to do so and are approved as use-limited, rather than deeming certain types of resources eligible to use these bids to reflect their opportunity costs. CAISO is proposing to replace the current system of use-plans for use-limited resources with a combination of a new Masterfile field (a market-based field), outage cards (a temporary fix) and the potential to develop opportunity costs. CAISO's proposal does not clarify how non-generating resources, such as demand response, or storage, would be able to develop such opportunity costs. In the stakeholder meeting, CAISO said that storage costs would be worked out in the Energy Storage and Distributed Resources (ESDER) initiative.

Recommend Further Stakeholder Meetings and Substantive Discussions

CPUC Staff are supportive of comments made by other stakeholders on the recent call that this initiative should be delayed to further consider and discuss the practical implications of the proposal, the impact this proposal could have on the operation of recently adopted mechanisms, such as the availability incentive mechanism (RAAIM), and the impact of the proposal on preferred resources that we are trying to integrate into the CAISO markets, such as DR and Storage. Furthermore, CAISO made many substantive changes in the most recent version of the document, and the practical implications of these new changes have not been fully vetted or discussed with stakeholders, as was apparent from comments at the recent meeting. Therefore, we recommend delaying this initiative until a more comprehensive, in person, stakeholder meeting can be held to discuss the far-reaching implications of the proposals. This would be most effective if jointly held with ESDER and Reliability Services (RSI) stakeholders and policy leads as well. Bringing this to the March CAISO Board meeting is therefore premature, especially given CAISO's indication on the last stakeholder call that this initiative would not be implemented until the fall of 2017.

CPUC Staff's goal is to ensure that ratepayer investments in resources are maximized, through the dispatch of those resources by CAISO in an optimal manner. We are sure that our goals are aligned in this regard. However, we are uncertain that the current proposal will do a better job of maximizing the use of those ratepayer investments, especially for preferred resources, compared to the current system of use plans for use-limited resources. With further refinements that could be developed from additional stakeholder consideration and discussion, a more effective system could result, but we are not confident in the current proposal.

At the core of the original MSC recommendation was that the use of opportunity costs could be an effective way for a use-limited resource to be optimized by the CAISO's market software. CPUC Staff also supports, this, in theory, but the current proposal does not lay out a clear path forward for use-limited resources, as defined currently in the tariff, to develop opportunity costs that would be used in the optimization. Through stakeholder discussions, it has become apparent that opportunity costs will be very difficult to calculate for certain types of resources, and, until CAISO lays out a proposed methodology for how these can be calculated and how the optimization would work, in practice, it is difficult for CPUC Staff to support the proposal.

Substantive Comments

<u>Demonstration of need for Opportunity Costs:</u> The current proposal does not include a "default" for those resources that are currently deemed use-limited under the tariff to be entitled to a calculated opportunity cost. Instead, all resources must demonstrate the need for an opportunity cost, but it is unclear how this need would be demonstrated, or what criteria CAISO would apply to determine whether or not a resource qualifies. Furthermore, the proposal does not state or even outline the methodology that would be used to determine a resource's opportunity costs for those types of resources that would lose their default use-limited status under this proposal . The tariff needs to spell this out for it to be effective, but it is not discussed in the draft final proposal.

<u>Respecting contractual limitations:</u> The Draft Final proposes to grandfather in contracts that were approved by CPUC, and clearly we support this change to the proposal, with two caveats. First, we are uncertain about the "cut-off" date proposed for contracting. Is this proposal for the date the contract was signed, or approved? The proposal is unspecific. We need more time to consider and discuss this with the LSEs we regulate and whose contracts we approve. Second, upon further consideration and discussion with our LSEs, including an analysis of existing contracts, we have identified that a three year "grandfathering" period will likely be insufficient because the CPUC has approved long term contracts

for its jurisdictional LSEs that go out further than three years. These contracts are of a very limited quantity so the impact of grandfathering them would be slight. The provision would therefore need to be in place for the lifetime of contracts signed by a specific date (either 1/1/15, as proposed, or another date we decide is appropriate after discussion with CAISO).

Outage Cards: The current proposal seems to include the retention of outage cards during a “transition period” while the Opportunity Cost model is being tested. We are very supportive of this because all use-limited resources need to retain the RAAIM exemption for the near term. However, we are confused as to whether *all* resources that can currently use outage cards will be able to continue doing so, after CAISO changes the tariff definition of “use-limited.” We found the proposal to be unclear on this topic.

Market-based limitations: The original proposal to create a market-based limitations field in the Masterfile came from SCE as a potential way to reflect resource characteristics once the use-plans went away. The newest proposal changes the SCE proposal so that the minimum daily number of starts that a resource could reflect would be two instead of one, which is above the must offer-obligation (MOO) for flexible category 2 & 3, and may also be unreasonable for preferred resources such as DR and storage. We understand that this change is based onmarket monitoring (DMM) concerns, and therefore we hope to discuss those in more detail and determine if there is another way to address them.

The effects of this requirement on the flexible (FRAC-MOO) categories, as adopted in CAISO’s tariff, have not been discussed, indicating that they have not been considered. If the intent of this proposal is to allow a resource to reflect start-up costs in the “market based” field, it will only aid those resources that have no cost difference between 1 start at 2 starts, and for which their design allows for three starts per day or more.

Use-limited preferred resources: The CPUC has ordered our jurisdictional LSEs to procure use-limited resources to meet RA obligations, and the draft final proposal may have unintended consequences for the ability of such resources to be dispatched in accordance with their inherent and contractual limitations, and may alter the value of these resources over time if they are not dispatched appropriately. These issues mostly fall into those potentially affecting Demand Response (DR) and those potentially affecting storage.

On the topic of storage, on the recent stakeholder call CAISO indicated that it is planning to “deal with” storage issues in ESDER Phase 2, when it will improve the non-generating resource (NGR) modeling. This plan is unlikely to be sufficient for a number of reasons. First, many storage resources do in fact have start-up and commitment costs, but this proposal does not address how they would be developed. It is unclear where and when CAISO will determine what start-up costs are for storage resources and how they will be included in the optimization. Second, it is difficult for CPUC Staff to agree that ESDER Phase 2 will adequately develop an optimization model to ensure that storage resources can reflect opportunity and start-up costs when this phase of the initiative has not yet begun.

Second, on the Demand Response issue, the proposal calls for a new "nature of work" outage card for DR resources, and stakeholders on the call indicated a need for further explanation of this. Specifically, will this new type of outage card recognize the annual limits on dispatch inherent in DR programs and not just weekly/ monthly limits? Furthermore, at this point, the DR outage card would need to be permanent because CAISO has not revealed what type of information it would consider valid for a DR resource to demonstrate its opportunity costs. If CAISO does not agree that DR resources are going to remain "use-limited" (as indicated on page 44 of the proposal), then, DR resources wouldn't qualify for an opportunity cost either. Therefore, if that is the meaning of the proposal, then CPUC Staff would not agree that the DR outage card is a workable solution to alleviate our prior concerns with DR using its default use-limited status.

In conclusion, CPUC Staff encourages CAISO to spend more time developing the proposal, and discussing the interconnections between the proposal and other recent/proposed changes to the market with stakeholders in a comprehensive manner. These issues are incredibly complicated and the likelihood of unintended consequences without thorough vetting and discussion is high. Therefore, CPUC Staff recommends that this proposal be delayed and not go before the CAISO Board in March. There is plenty of time to develop further analysis and testing and still meet the CAISO's goal of a fall 2017 implementation for market changes related to optimizing use-limited resources through opportunity cost bidding, and not through the use of individual use plans.