



# ORA

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## THE OFFICE OF RATEPAYER ADVOCATES' COMMENTS ON THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION'S BLACK START AND SYSTEM RESTORATION PHASE 2 DRAFT FINAL PROPOSAL

April 4, 2017

The Office of Ratepayer Advocates (ORA) is the independent consumer advocate within the California Public Utilities Commission (CPUC), with a statutory mandate to obtain the lowest possible rates for utility services consistent with reliable and safe service levels, and the state's environmental goals. The following are ORA's comments and recommendations on the California Independent System Operator Corporation's (CAISO) Black Start and System Restoration Phase 2 Draft Final Proposal.<sup>1</sup>

### **The CAISO should procure black start resources only in the event that a Participating Transmission Owners (PTO) is not able to acquire necessary black start resources.**

Currently, the generating resources that provide black start capability are either utility-owned generation (UOG) or under contracts with investor owned utilities (IOUs), with costs recovered from the IOUs' customers.<sup>2</sup> Recently, the CAISO identified a need for additional black start resources in the greater San Francisco Bay area.<sup>3</sup> The CAISO observed that "additional black start capability in the Greater Bay Area is necessary to ensure the [CA]ISO can restore service across major urban centers throughout California in a comparable amount of time."<sup>4</sup> In contrast, the CAISO determined that no additional black start resources are needed in Southern California, because the existing black start resources allow for "more expedient restoration."<sup>5</sup>

Going forward, the CAISO's proposes to procure incremental black start resources and allocate the costs as reliability services to the participating transmission owner (PTO) in the area with a need for new black start resources. The PTO with the need for new black start resources would then recover those costs through its reliability services tariff from most customers in its transmission access charge area.<sup>6</sup>

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<sup>1</sup> Black Start and System Restoration Phase 2 Draft Final Proposal, March 14, 2017 (Draft Final Proposal).

<sup>2</sup> Black Start and System Restoration Phase 2 Issue Paper, January 17, 2017 (Issue Paper), p. 4.

<sup>3</sup> Draft Final Proposal, p. 3.

<sup>4</sup> Issue Paper, p. 5.

<sup>5</sup> Issue Paper, pp. 4-5.

<sup>6</sup> Draft Final Proposal, p. 5. Southern California Edison Company (SCE) pointed out that some publically owned utilities in its service territory would not pay the costs of incremental black start resources under the CAISO's Draft Final Proposal. SCE Comments on Black Start and System Restoration Phase 2

ORA's survey of other regional transmission owners (RTOs) revealed that procurement policies vary. Some RTOs rely on their member PTOs to secure black start services,<sup>7</sup> while other RTOs procure black start services themselves.<sup>8</sup> The New York Independent System Operator (ISO) procures black start resources for the entire state, but Con Edison provides additional black start services for its service area due to its area's specific requirements and a history of significant black outs.<sup>9</sup>

Southern California Edison Company (SCE) recommends that the CAISO allow PTOs the option to continue procuring black start resources and recovering costs from their customers.<sup>10</sup> ORA agrees that PTOs should acquire additional black start resources and recover costs under the existing model, which has worked well since its inception. The current method allows the CPUC to review the costs and would be more efficient and less costly than a new request for proposal (RFP) process. Only in the event that a PTO is not able to acquire the necessary black start resources, should the CAISO assume the responsibility for acquiring the black start capability under its proposed RFP process. For example, if a PTO needed to acquire additional black start resources from independent power producers, allowing that PTO to review the financial information of independent power producers as part of the procurement process would raise anti-competitive concerns.

**The CAISO's black start Request for Proposal (RFP) and contracts should contain criteria and terms that ensure effective operation and payment terms that reflect the cost of service.**

The CAISO proposes to acquire additional black start resources through an RFP process.<sup>11</sup> The CAISO, in consultation with the PTO that needs additional black start capability, but is not able to procure it, would develop the technical requirements and pertinent selection factors for the resources. The CAISO would also make the final selection to address concerns about possible bias in the selection process.<sup>12</sup> Compensation through CAISO's proposed procurement process

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February 14, 2017 Straw Proposal, February 28, 2017(SCE Comments), p. 2. The CAISO states that the changes necessary to address this issue have the potential to add "delay and complexity to the procurement of the incremental black start resources required in the greater bay area." Draft Final Proposal, pp.6- 7.

<sup>7</sup> ORA staff communication with Kristian Rudd, Midcontinent ISO (MISO) black start staff, March 23, 2017 and ORA communication with Sam Loudenslager, Southwest Power Pool, March 10, 2017.

<sup>8</sup> ORA staff communication with Jennifer Tribulski, PJM black start agreement attorney, March 20, 2017; ISO New England Open Access Tariff Schedule 16 Black Start Service, and ERCOT, Modify Black Start Procurement Cycle Memorandum, January 23, 2017.

<sup>9</sup> ORA staff communication with Christopher Star and David Mahlmann, New York ISO, March 28, 2017.

<sup>10</sup> SCE Comments, p. 1.

<sup>11</sup> Draft Final Proposal, p. 3.

<sup>12</sup> As the Department of Market Monitoring (DMM) pointed out, this could happen if the PTO was faced with bids from affiliated market participating entity. To avoid the appearance of bias in selection, the

would be based on a cost of service model that reflects capital improvements, and operations and maintenance costs plus a reasonable profit margin.<sup>13</sup>

To ensure that the costs of these additional black start resources are cost-based, ORA recommends the use of standardized selection criteria and contract agreement terms. The standardized selection criteria should:

- Ensure that the resources are located strategically to meet North American Electric Reliability Corporation (NERC) requirements and support area restoration plans.
- Evaluate the resources' age and associated energy capacity agreements to determine that selected black start resources are economically viable. Evaluating economic viability would address concerns raised by the CAISO,<sup>14</sup> the Department of Market Monitoring (DMM),<sup>15</sup> and PG&E.<sup>16</sup>
- Evaluate the estimated capital, operating and maintenance, training and testing costs for the resource.<sup>17</sup>

ORA also supports consideration of a soft offer cap, similar to the market power mechanism in place for capacity, as recommended by the DMM.<sup>18</sup>

ORA recommends standardized agreement terms to ensure that included costs are based on industry standards. This would facilitate cost review and the avoidance of unnecessary costs. The majority of the RTOs in the United States, which includes the PJM Interconnection (PJM),<sup>19</sup> the Midcontinent ISO (MISO),<sup>20</sup> the ISO New England<sup>21</sup> and the New York ISO<sup>22</sup>, restrict the

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DMM notes that it may “be more appropriate for an independent entity to make the final selection on the basis of cost and merit.” Department of Market Monitoring Comments on Black Start and System Restoration Phase 2 Straw Proposal, March 9, 2017 (DMM Comments), p. 2.

<sup>13</sup> Draft Final Proposal, p. 6. The Draft Final Proposal would not change the IOUs' existing arrangements for meeting their black start capability, but would apply only to additional black start resources. Draft Final Proposal, p. 7.

<sup>14</sup> Draft Final Proposal, p. 8.

<sup>15</sup> DMM Comments, p. 1.

<sup>16</sup> PG&E Comments on Black Start and System Restoration Phase 2 Straw Proposal, February 14, 2017 February 28, 2017, p. 2.

<sup>17</sup> The list of recommended goals for the standardized criteria is not intended to be exhaustive.

<sup>18</sup> DMM Comments, p. 2 (recommending consideration of a “soft offer cap for offers submitted in the black start capacity RFP, similar to the market power mechanism in place for capacity.”).

<sup>19</sup> PJM Open Access Transmission Tariff Schedule 6A – Black Start Service and ORA staff conversation with Jennifer Tribulski, March 20, 2017, PJM black start agreement attorney.

<sup>20</sup> MISO Open Access Transmission Tariff Schedule 33 and attachment NN form of Service Agreement to provided black start service.

<sup>21</sup> ISO New England Open Access Tariff Schedule 16 Black Start Service and ISO New England Operating Procedure No. 11 Black start Resource Administration.

billable black start expenses to black start capital costs, operating and maintenance expenses, and training and testing expenses. ISO New England developed “proxy” black start payments for applicable capital costs, and operating and maintenance expenses, for hydro and fossil units based on an engineer cost study using current technologies and assuming different starting units and sizes. These costs are included in the ISO New England tariff and updated annually with the Handy Whitman index.<sup>23</sup>

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<sup>22</sup> New York ISO Ancillary Services Manual December 2016 7.4 Black Start Capacity Service and New York ISO Open Access Tariff Market Service Tariff Rate Schedule 5.

<sup>23</sup> The Handy-Whitman Index calculates the cost trends for different types of utility construction.