

**Comments of Southern California Edison Company on CAISO
White Paper - Standard Resource Adequacy Capacity Product**

Submitted by	Company	Date Submitted
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Southern California Edison Company (“SCE”) provides these comments on the California Independent System Operator’s (“CAISO’s”) White Paper for a Standard Resource Adequacy Capacity Product, issued February 6, 2009 (“White Paper”). SCE appreciates this further opportunity to comment on specific aspects of the White Paper and - with the exception of some elements of the grandfathering provisions - supports the proposed changes and clarifications to the SCP. SCE remains concerned that the CAISO’s proposed grandfathering proposal, although substantially improved over the prior version, places undue procurement risks for contracts that are signed between January 1, 2009 and FERC approval of the SCP proposal as well as DWR contracts that, pursuant to State policy, could be transferred to the IOUs.

SCE provides the following comments:

- The CAISO’s proposed grandfathering provisions should extend to all contracts executed prior to FERC approval of the SCP and should expressly apply to California Department of Water Resources (“DWR”) power contracts for the original life and MW quantity of those contracts, even if those contracts are novated or replaced in accordance with the California Public Utilities Commission’s (“CPUC’s”) Decision (“D.”)08-11-056.
- SCE supports the CAISO’s proposal regarding unit substitution, but agrees that the CAISO needs to develop a template to provide more details on the substitution “pre-qualification” process.
- SCE supports the CAISO’s proposal to apply separate availability standards and performance incentives to non-resource-specific Resource Adequacy (RA) imports, based on SCE’s understanding that such imports will be

required to procure sufficient transmission rights to be able to successfully import the capacity to the CAISO system.

Transitioning Provisions

SCE's most significant concern with the White Paper remains the proposed grandfathering provisions for availability standards and incentives. The CAISO's current proposal to exempt all contracts executed prior to January 1, 2009 from the SCP availability standards and performance incentives is a substantial improvement over the grandfathering provisions in the CAISO's January 8, 2009 draft SCP proposal. The January 8 draft proposal stated that existing contracts must have availability standards and performance incentives at least equivalent to the SCP in order to be grandfathered, but the capacity would be non-tradable.

SCE remains concerned, however, that the White Paper's proposed grandfathering provisions do not appropriately address: (1) contracts executed between January 1, 2009 and prior to FERC's approval of this SCP, and (2) the DWR contracts executed during the 2000-2001 California energy crisis. Consequently, SCE customers are placed at risk for significant cost increases. SCE therefore urges the CAISO to modify the White Paper's grandfathering provisions as described below.

Contracts Executed Prior to FERC Approval of the SCP Tariff

Limiting grandfathering to contracts executed prior to January 1, 2009 fails to account for a potentially significant period of time during which LSEs may need to procure capacity to meet RA obligations, without knowing what SCP tariff provisions will be ultimately approved by FERC. Although the CAISO currently intends to submit its proposed SCP tariff provisions to FERC in March 2009, FERC may not issue a final ruling for many months, potentially extending beyond the time when LSEs would find it commercially prudent to contract in order to meet the CPUC's October 2009 deadline for 2010 year-ahead RA compliance filings. Moreover, FERC's final ruling on the SCP could involve substantive changes to the tariff language proposed by the CAISO. Because LSEs (and generators) do not have upfront certainty as to the SCP tariff language that FERC will approve – and in fact, the CAISO's SCP proposal has changed since January 1, 2009 – SCE urges the CAISO to grandfather all contracts executed prior to FERC approval. This grandfathering approach will protect LSEs and their customers from incurring increased procurement costs to comply with SCP requirements that are not ultimately adopted by FERC.

DWR Power Contracts

During the California energy crisis, DWR (pursuant to Legislative Assembly Bill 1X) executed contracts on behalf of the customers of the three IOUs. Those contracts

have varying terms and expiration dates, but all were signed at the height of the energy crisis, and without assistance from the IOUs. At the urging of DWR, the CPUC recently issued D.08-11-056, which authorized measures to facilitate removal of DWR from its current role of supplying electric power. The CPUC contemplates that the DWR contracts will be novated, assigned, or substituted with replacement agreements by the IOUs by January 2010. To date, none of the DWR contracts have been transferred or replaced.

If the DWR contracts were allowed to expire on their own terms, rather than be novated or replaced, the contracts would undoubtedly be exempt from the proposed SCP availability standards and performance incentives under the White Paper's grandfathering provisions. Moreover, in D.08-11-056, the CPUC stated that any transferred DWR contracts or replacement agreements for those contracts would continue to count for RA purposes, for at least the current duration and MW quantities of the existing contracts.¹ It would be poor public policy to subject these contracts to the new standards and performance incentives of the SCP simply because of an ownership change. For ratepayers to be able to count the contracts for RA purposes at the CPUC, but then have to expend additional funds to meet SCP availability and performance standards for those same contracts to qualify as RA resources to the CAISO is unfair.

The White Paper does not make clear whether renegotiated DWR contracts will be considered grandfathered because of their relation to existing DWR contracts executed prior to January 1, 2009 (or prior to FERC approval of the SCP tariff provisions as recommended above). Thus, SCE urges the CAISO to explicitly extend the SCP grandfathering provisions to all of the DWR contracts, by relating any transferred or replaced agreements back to the existing DWR contracts that were executed prior to the grandfathering cut-off date. SCE recognizes, however, that the renegotiated contracts could include extensions to the current duration of the DWR contracts and/or changes in the amount of capacity provided. It would be inappropriate to allow grandfathering for the "new" time period of the renegotiated agreement or increased amounts of capacity. Thus, SCE requests only that the availability/performance incentive grandfathering for renegotiated DWR contracts apply for the original life and MW quantity of those contracts in place at the time of the grandfathering cut-off.

Unit Substitution

SCE generally supports the CAISO's proposal regarding unit substitution, but requests that the CAISO provide greater details before filing SCP tariff provisions with FERC. While the White Paper indicates that the CAISO will develop a substitution template, the White Paper does not describe the process that would be used to request and

¹ D.08-11-056, Ordering Paragraph No. 8.

receive pre-approval. It appears that the CAISO contemplates that Scheduling Coordinators (“SCs”) for the RA resources would submit their substation request in conjunction with their submittal of the annual Supply Plan. If this is the case, then details behind the request and approval process need to be provided. For example, SCs need to understand at least the following issues:

- Does the substitute Local RA resource have to be a non-RA resource?
- Is there a limitation on the number of substitutable units an SC can request?
- If multiple SCs request multiple substitutions, what is the baseline against which the CAISO will measure whether or not a local unit is substitutable?
- What confidentiality provisions will govern the substitution request?
- Why wouldn’t an SC be able to request a local resource substation prior to month-ahead supply plan filing (*i.e.*, why does the pre-approval have to come at the beginning of the year)?

SCE supports the CAISO having discretion to approve all substitution requests. In the White Paper, the CAISO has committed to “make every effort to accommodate these [substitution] requests to the extent that they provide the same level of reliability as the originally designated resource. For example, if a supplier requests a substitute unit that would still cause the ISO [to] need to procure backstop capacity, that unit substitution request would be denied.”² This is appropriate to prevent cost-shifting through backstop procurement (caused by the forced outage of a single generator or group of generators) to other market participants that have met their availability targets. If the substitution of a unit would require backstop procurement, then that unit is not a genuine substitute for the unit on forced outage and the *resource owner* should face penalties for the outage, not the entire market.

Non-Resource-Specific RA imports

The CAISO proposes in the White Paper to treat non-resource-specific RA imports as a separate category of resources for the purpose of availability requirements and incentives, with a separate availability standard set at 100%. Based on the White Paper and further discussion during the February 13, 2009 stakeholder conference call, SCE believes it understands the CAISO’s proposal regarding the effect of curtailments on non-resource-specific RA imports, for the purpose of meeting SCP availability standards.

² White Paper, at 6.

SCE supports the CAISO's proposal, to the extent the description provided below is correct.

SCE understands that the CAISO will require non-resource-specific RA imports to procure sufficient transmission rights to be able to successfully import the capacity to the CAISO system. Failure to do so will subject the SC for the import to unavailability charges. However, if for any reason, the CAISO does not accept the import schedule due to the congestion associated with the CAISO's IFM, then the SC for that scheduled resource will be deemed to have met its availability obligation (because it offered) and should not face charges. If, on the other hand, the schedule is curtailed at some point while the import is being wheeled to the border, then the SC for the import should face unavailability charges to the extent of the curtailment.

Summary

SCE appreciates the time and effort undertaken by the CAISO and other stakeholders to develop the current version of the SCP, as modified by the White Paper. However, SCE urges the CAISO to reconsider its transition proposal to extend the grandfathering provisions to contracts executed prior to FERC approval of the SCP tariff provisions and to the current life and MW quantity of the DWR contracts regardless of the date they ultimately transfer (if at all) to the IOUs. SCE also supports the White Paper's proposals regarding unit substitution and non-resource-specific RA imports, subject to the clarifications described in these comments.