

Stakeholder Comments

Cost Allocation Guiding Principles Straw Proposal

Submitted by	Company	Date Submitted
Alex J. Morris – (626) 664-9926	Southern California Edison	February 17, 2012

Please find Southern California Edison’s (SCE) comments to the California Independent System Operator’s (CAISO) Cost Allocation Guiding Principles Straw Proposal. SCE supports the CAISO’s focus on effective cost allocation but notes that improper design or implementation may negate any improvements or, even worse, harm market efficiency.

Appropriate and principled cost allocation plays a foundational role in market efficiency, and the CAISO must ensure its principles direct future efforts towards efficient, technology-neutral, and competitive designs. As the State’s electricity supply mix changes due to SCE’s, the California Public Utilities Commission’s, and others’ pursuit of important state policy goals, SCE maintains that cost allocation rules should be revisited to ensure designs support market efficiency and competitiveness. With highly efficient markets governed by coherent and non-preferential guiding principles, the CAISO can ensure California’s electricity needs are reliably met at the lowest cost.

SCE’s comments

- A. While SCE fully supports state policy goals, SCE cautions against any form of preferential or discriminatory treatment as it relates to cost allocation because it will do more harm than good.**

As the State has many levers to foster policy goals (such as the Renewable Portfolio Standard), an optimal role for the CAISO to support goals is to ensure a fair, transparent, efficient, and non-discriminatory market. Such a market will involve allocation of costs based on causation without preferential or discriminatory treatment to any party or technology. Through the development of efficient markets, costs are reduced in the long-run, supporting the achievement of policy goals and leading to a reliable and low cost system.

The CAISO should evaluate and tailor its principles with an eye towards long-term efficiency. Does the principle drive market efficiency through clear price-signals and competition? Does it support the CAISO’s role as an independent system operator and market place? Is it nondiscriminatory, just, and reasonable? Is it technology-neutral or does it “pick winners”? Does it align with economic principles or deviate from them? Does it

complement other principles and provide clear guidance to the CAISO and stakeholders for market designs? As the CAISO finalizes its principles, it should seek to develop an independent market-place to ensure efficient market solutions.

If, as it reads, the “Policy Alignment” idea encourages non-economic behaviors, SCE believes it may be inappropriate for this cost allocation initiative. As mentioned, policy directives can and often should occur outside of markets to avoid costly inefficiencies. When in markets, preferential programs such as the Participating Intermittent Resources Program have raised reliability concerns, inefficiencies, and counter-productive cost-shifting strategies. These problems, along with the difficulty of ending subsidy programs in markets, highlight risks that may accompany this principle.

SCE is committed to helping the state reach its policy goals in a cost effective and reliable manner and has demonstrated a leadership role in this effort¹. As such, it is important that the CAISO do its share by ensuring its markets operate efficiently and allocate costs based on causation – in a nondiscriminatory manner – consistent with sound economic principles.

B. SCE supports the majority of guiding principles but recommends a minor clarification to the “Causation” principle.

SCE recommends minor changes to the language accompanying the “Causation” principles. Under the “Causation” principle, the CAISO writes that “[costs] will be charged to resources and/or market participants that benefit from and/or drive the costs.” The CAISO should instead define the “Causation” principle exclusively to allocate costs to the entities that create or drive them, excluding consideration of “benefits”. This effort focuses on cost-causation and should be scoped accordingly.

C. SCE supports rapid application of cost allocation principles, including to the Flexible Ramping Constraint and Products.

Because appropriate cost allocation within markets will improve market efficiency, SCE supports the rapid address of cost allocation in a principled manner. Not only will such a practice flow costs fairly within markets, but it will also ensure more optimal forward planning decisions. The CAISO should move quickly to implement logical and efficient cost allocation. Cost allocation for the flexible ramping constraint and product is a prudent starting point.

¹ SCE leads the nation in renewable energy, delivering approximately 14.5 billion kilowatt-hours of renewable energy to customers in 2010: <http://www.sce.com/PowerandEnvironment/Renewables/default.htm>