Stakeholder Comments

Commitment Cost Enhancements Phase 3 (CCE3), Draft Final Proposal, February 17, 2016

Submitted by	Company	Date Submitted
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SDG&E appreciates the opportunity to comment on the Draft Final Proposal issued February 17th and the Stakeholder call held February 25th detailing the updated elements of the Commitment Cost Enhancements Phase 3 (CCE3) proposal. SDG&E supports the implementation of an Opportunity Cost Adder (OCA) to manage limitations over a given time horizon. And, SDG&E supports the methodology the CAISO has designed to calculate the OCA. But, SDG&E is concerned about the lack of detail in many elements of the proposal, particularly the administration of the 10% reserve margin, the usage rules of a temporary 'short term use-limited reached outage card', how storage and cycling will be accounted for and what state a LTPP contract must be in by Jan 1, 2015 to qualify for use limited exception. SDG&E does not support a 3 year time horizon for exception for certain contractual limitations. And, CAISO has not answered the FERCs request for the CAISO to provide a comprehensive explanation of the impact on customers from a use limited definition change. For all of these reasons, SDG&E believes the CAISO should take more time to develop this proposal and postpone presenting at the March Board of Governors (BOG) meeting.

1. **The date to evaluate eligibility for exceptions for certain regulatory approved contractual limitations should be the date of the FERC order approving CCE3**

SDG&E does not believe the January 1, 2015 date to be an appropriate date to qualify certain contract limitations for use limited status that were negotiated to meet reliability needs and approved by a regulatory authority, the CPUC, through the Long Term Procurement Process (LTPP). This date is when the Commitment Cost Enhancement stakeholder process started and first touched upon the idea of changing the definition of a use-limited resource. Long after this date, the CAISO strongly opposed honoring contractual limitation of this nature. With such policy uncertainty parties would not have started negotiating and signing contracts with annual start limitations to try and game the system. The exact requirements needed to qualify for contract limitation exception will not be known until the FERC order is received.

SDG&E requests the CAISO use the date of the FERC order approving the CAISO filing and implementation of CCE3 with accepting contract limitation approved via the regulatory LTTP process for exception and honored as a use limitation. Until that time, the regulatory process will prevent contracting provisions from creating market manipulation.

SDG&E sees honoring contract limitations as use limitations in contracts 'filed' with the commission for approval via the LTPP process by January 1, 2015 as another possible option. While it is true there can be changes during the approval process, the framework of the contract remains and any changes made are reviewed by the CPUC for final approval. In this manner, the approval process can, and often does, take a while. If the CAISO is looking to set a limiting date for honoring contract limitations, SDG&E recommends looking further out on the time horizon than January 1, 2015 to allow for contracts that were moving through the approval process. These surely were not working towards terms for any market manipulation if they were filed by January 1, 2015 for approval by the CPUC via the LTPP.

2. **A 3 year transition period for limited exemptions of contractual limitations is inadequate**

3 years does little to ameliorate the concerns of contracts negotiated and approved under the LTTP. CAISO's position is this will give contracting parties a window of time to renegotiate contracts or find additional solutions to providing capacity to meet reliability needs. However, this will come at a great cost to contracting parties needing to negotiate for more starts. The generator wields more power in these negotiations leaving the rate payers to bear the additional costs (expected to be met in a non-competitive fashion). There are only so many resources physically located in a given area. So, there is not a lot of competition meaning LSEs will have a poor negotiating position resulting in costly contract terms. And, it is not clear these terms will be needed for the next 20 plus years as CAISO needs continue to change. Additionally, the CPUC may not approve such changes. As such, it is reasonable to honor these limited exemptions of contractual limitations for the life of the contract.

The Market Surveillance Committee (MSC) was also concerned about these same issues when CCE3 was presented to them in February.

3. **FERC directed the CAISO to provide analysis on the impact to rate payers**

If CAISO honors the regulatory approved contract limitations for the life of the contract, there is no expected additional cost to rate payers for these existing contracts resulting from CCE3 market design. Alternatively, if the CAISO seeks a 3 year transition window for LTPP approved contract limitations, there are economic implications that will impact rate payers and FERC explicitly directed the CAISO to study this in their decision on CCE2. SDG&E made this case in our CCE2 filing protest at FERC and recommends the CAISO revisit protest Section D 'Absent Clarification, the CAISO's Implementation of Its Proposed Modification to the ULC Definition Will Increase Cost to Ratepayers.' As a result of this section, CAISO was directed by FERC in their decision to provide 'a comprehensive explanation of what it is proposing to change, how the changes impact the various categories of market participants, *and the impact on customers. We further expect that any such filing would include a detailed explanation of how it will implement the changes given the protests raised herein.'* (FERC Decision Docket No. ER15-1875-00 paragraph 39). The CAISO must provide analysis on economic implications to rate payers if it is only proposing to honor contract limitations approved through the LTPP process as a use limitation for a limited 3 years. Additionally, it should be considered the majority of these contracts are resulting from the CPUC Cost Allocation Mechanism (CAM) indicating they were crafted, negotiated and approved by the CPUC to provide reliability for all LSEs in the Local San Diego area. As demonstrated in our FERC protest, these contracts have adequate starts to meet reliability needs.

4. More details on the usage of a 'short term use-limit reached' outage card

SDG&E appreciates the CAISO providing a tool for short term management of resource limitations as the system refines the OCA calculation and implementation. SDG&E requests more rules and detail around the usage of this outage card as scheduling coordinators (SCs) are able to use it throughout the year. CAISO defines the primary use as managing a resource limitation over the limitation time horizon in the event the OCA is not properly managing the limitation. But, there is no design around what would qualify as market manipulation.

SDG&E suggests some additional rules to provide clarity for market participants to understand what is acceptable use and what is not and to guard against market manipulation. SDG&E believes it reasonable for an SC or a resource to invoke the outage card during the month if (1) it has been consistently bidding the OCA adjusted cap as produced by the model and (2) the expected monthly usage (starts or run hours) is reached. For example, if the OCA model output expects a use limited resource to start 12 times over a month and that resource has been bidding its full OCA, this resource may use the short term use-limit reached outage card once that resource has been started the 12th time that month and not before that time.

Without a more detailed framework, it isn't clear how this short term outage card may be used and how the CAISO will guard against market manipulation.

5. How will the 10% reserve margin be utilized at the end of the limitation time horizon?

SDG&E supports the inclusion of a 10% reserve margin to ensure a buffer at the end of the calendar year. SDG&E assumes most limitations are on an annual basis. Additionally, as has been mentioned, the CAISO has identified the greatest need for flexible capacity in the month of December. A reserve margin helps ensure there is capacity available for the end of year needs.

SDG&E believes it may be necessary to preserve 10% of the starting limitation over the year to have available for December- a discrete value carried through the year. Reducing the reserve margin to 10% of the remaining limitation may not provide enough reserve in the last few weeks of the year when consumptions patters can be erratic with the holiday season.

SDG&E requests the CAISO change the name of the 10% reserve margin to a 10% ‘uncertainty margin’. The term reserve margin is already used for operations and has historical and current connotations. Once outside of the stakeholder process, we are concerned this 10% hold aside may lose its meaning or be mis-interpreted. Thus, we recommend using a less common term and call the 10% an uncertainty margin.

6. The ‘market characteristic’ category needs more thought and detailing

SDG&E does not believe the most recent version of rules crafted around the Market Characteristic field is reasonable considering the beginning and original intent of the field. Requiring a minimum of 2 starts in the start field is unnecessary and does not meet the need the field was created to meet. The CAISO is concerned about market manipulation. But, as the CAISO and market participants alike agree, the market field must, at a minimum, meet RA obligations. The purpose of Must Offer Obligations through the RA program is to ensure adequate resources are bidding in the market. Even if Flexible category 2 and 3 only put 1 start in the field, that’s all they are required to be available in the current market paradigm. We fail to see how the market field provides any additional opportunity for market manipulation. We would appreciate clarity as to what dictates the obligation of the resource, the RA obligation or the Market Characteristic. It would be helpful for the CAISO to detail how the two interact, if at all. SDG&E does not believe the market characteristic field should define the flexible category.

Additionally, requiring 2 starts cancel out the original intent of the ‘market characteristic’ element of the market design. The Market Characteristic master file field was originally introduced in the CCE3 Revised Straw Proposal issued November 3, 2015. The CAISO states ‘The ISO will be developing policy through the Bidding Rules enhancement initiative potentially allowing scheduling coordinators a way to reflect contractual limitations without impacting the resources commitment costs. For example, the Bidding Rules initiative is contemplating a ‘market-based’ master file field for maximum daily starts. This would allow market participants a means to manage *contractual restrictions* without affecting a resources commitment cost cap.’ (page 10-11).

Then, in the Bidding Rules Enhancements Revised Straw Proposal issued November 23, 2015 this same intent was reiterated with the CAISO stating ‘The market based values can be used by market participants to ensure the resources do not exceed contractual limitations without affecting the commitment costs used in the market.' (pg. 42-43).

If the CAISO is not going to honor their original intent for this new master file field, SDG&E recommends they consider revisiting the need for and purpose of this field.

7. CAISO should add storage to the 'non-exhaustive' list of use-limited qualifications

There were many questions seeking clarification on the stakeholder call about how storage would be considered with respect to characteristics, cycling, unit degradation and contract provisions. We understand there is a dedicated stakeholder process to implementation of storage. But, it is important for CCE3 to address how it will handle storage over an annual commitment, not just the Non-Generator Resource (NGR) model which optimizes over a 24 hour time horizon. Contracting entities need to understand how contract limits, specifically cycling, will be viewed by the CAISO. If cycles will not be considered a use limitation since they are only a contract provision, CAISO should be clear about that so there is no confusion. LSEs are mandated to sign contracts with storage and are actively issuing competitive solicitations. This is a new area of contracting and these contracts are expected to be long term contracts. In this manner, if cycles which are correlated with the life of a storage unit do not count as a use limitation (even though they degrade the life horizon of a storage unit), this should be explicit in CCE3.

8. Board of Governors presentation should be postponed

With all of these outstanding questions surrounding details of the design, SDG&E does not believe it reasonable to seek Board approval at the March BOG meeting. This proposal will benefit from more time in development. SDG&E reiterates it does support an OCA and thinks this a positive move to manage generation limitations in the market to ensure reliability over the year. However, we cannot support seeking approval with so many questions remaining at this point of the stakeholder process.