Stakeholder Comments

Commitment Cost Enhancements Phase 3 (CCE3), Straw Proposal, August 24, 2015

Submitted by	Company	Date Submitted
Lisa Olson eolson@semprautilities.com 858-650-6182	San Diego Gas & Electric	September 8, 2015

SDG&E appreciates the opportunity to comment on the Straw Proposal issued August 24th and the Stakeholder call held August 31st detailing the elements of the Commitment Cost Enhancements Phase 3 (CCE3) proposal. CCE3 outlines in more detail the methodology to calculate the use-limited capacity (ULC) opportunity cost adder proposed in Commitment Cost Enhancements Phase 2 (CCE2). The CAISO continues to make good efforts to define inputs and processes to determine the opportunity cost adder. Generally, SDG&E supports the proposal and methodology. SDG&E has the following comments.

SDG&E supports the CAISO's addition of the 'conversion factor' to take into account future market expectations not implicit to other inputs which will create the future LMP profile for the model. Past implied heat rates and future natural gas prices are the other inputs proposed to formulate future LMP prices. These variables do not, necessarily, account for expected market conditions such as a low/high hydro year or El Nino conditions. However, future power prices should reflect some indication of such forecasts. SDG&E supports the method proposed for deriving these expectations and applying them to the LMP profile used for modeling the opportunity cost adder for ULC.

SDG&E supports the CAISO's proposal to re-run the model and update ULC opportunity cost adders on a monthly basis. A monthly update frequency should be sufficient for most ULC with simply modeled limitations. However, SDG&E believes some trigger mechanism should be included, especially early in the implementation phase. SDG&E anticipates fine tuning to be an iterative process for both SC's and the CAISO. Some sort of trigger mechanism will mitigate some initial risk of the new process and possibly inaccurately calculating and applying an opportunity cost adder.

For example, SDG&E is concerned about translating emission limitations and fuel usage limitations to an input more easily modeled (i.e. start or run hour limits). Emission levels are different at different stages in the run cycle of a unit. A unit typically produces more emissions per MWh at start up than it does running at full capacity.

And, many units have a different emission profile based on where they are generating between pmin and pmax. It stands to be difficult to translate this in to run hours, starts or MWh limits. These same issues hold true for fuel usage. Units tend to be more efficient the closer they run to max capacity. Any method of translating these types of permit limitations will be imprecise.

One idea for a trigger mechanism is a trigger around how much of a resource's limitation is being used in relation to how much the opportunity cost model found it to dispatch over the course of the limitation. For example, if a unit is being dispatched far more in the spring time due to RT price volatility than the model estimated, there should be a trigger such that the opportunity cost model is re-run to ensure the unit is available for other times of the year the model estimated the unit to be dispatched. Currently, we see many of our CT peaker plants (fast start units with run hour limitations based on air permits) receiving bid cost recovery (BCR) payments in the spring time. This implies they are not, necessarily, dispatched for economic reasons. This needs to be taken into account by the opportunity cost model. Units are not always economically dispatched.

Additionally, SDG&E is concerned about the opportunity cost adder methodology not accounting for the CAISO's determination that the greatest need for flexibility is in the month of December. As the CAISO points out in the Straw Proposal, many ULRs have annual restrictions based on the calendar year. This then means any underestimation of the opportunity cost adder and/or additional non-economic dispatches (as has been experienced in the spring) could negatively impact ULC availability in December. ULC is often capacity which can meet ramping (flexibility) needs. SDG&E brought this issue up in our last comments and it was not addressed in the Straw Proposal or on the Stakeholder call. SDG&E requests CAISO consider building in a reserve buffer to ensure some starts and/or run hours remain in December for reliability purposes. Or, SDG&E requests some demonstration as to why CAISO does not believe some mechanism is necessary to preserve reliability in this manner for the month of December.