Stakeholder Comments

SDG&E Comments on the 2020 and 2024 Local Capacity Requirement (LCR) Draft results

Submitted by	Organization	Date Submitted
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1. **Final LCR power flow cases**

SDG&E wants to thank the CAISO for proposing to make final LCR cases available to stakeholders. SDG&E believes this will further improve the LCR process and allow stakeholder to gain a better understanding of some of the mechanics used by the CAISO to determine LCR results. This will also enable stakeholders to benchmark LCR results and provide better feedback to the CAISO.

2. **Value of LCR Reduction Projects in the Greater Imperial Valley – San Diego (GIV-SD) Local Area**

The 2020 and 2024 LCR preliminary results show that all the generators in GIV-SD area need to be dispatched to meet the GIV-SD LCR requirement. This essentially means that there is already no surplus of generation in the GIV-SD local area and that projects aim to reduce LCR requirements in this area should be valued differently than they were in the recent Transmission Planning Process (TPP) draft report. SDG&E notes that in the 2018-2019 planning cycle, the CAISO used the difference between ***near-term local*** capacity prices and ***near-term system*** capacity prices to assess the economic benefits of transmission projects that are proposed to reduce LCRs. The near-term capacity prices used by the CAISO were based on the CPUC's most recent 2017 Resource Adequacy Report.

Considering current state policies and the anticipated retirement of gas-fired generation within the next 20 years, which is a shorter time frame than transmission projects (e.g. more than 40 years), the economic assessment of LCR reduction projects in the GIV-SD area should not be based on near-term Resource Adequacy (RA) prices. As recognized in section 4.3.4 of the TPP draft report, the basis for the local prices should depend on the circumstances within the local capacity area. Specifically, and at a minimum, LCR reduction projects in the GIV-SD area should be valued as the price differential between the CPM soft offer cap and system capacity prices If there is no competition (or if all the units are needed) as described in table 4.3-2 of the TPP draft report.

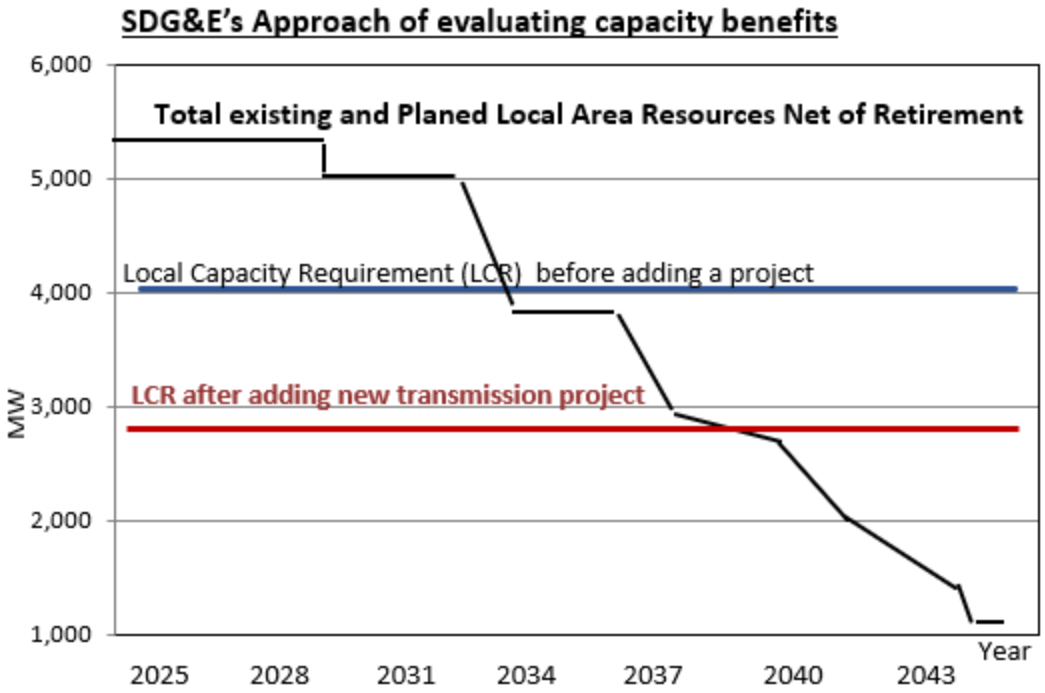
A better and more accurate approach would to use the methodology outlined in SDG&E's TPP comments for the recent 2018-2019 Draft Transmission Plan also included as Appendix with these comments. SDG&E's proposed approach is to forecast longer term (corresponding to asset lives of 50 or more years) capacity prices by considering resource scarcities over time, the cost of building new generators that will comply with California's policies (e.g. SB100) including the replacement of such generation when their useful economic lives end, and the impact of future technology improvements on zero-carbon resources' costs (e.g. storage).

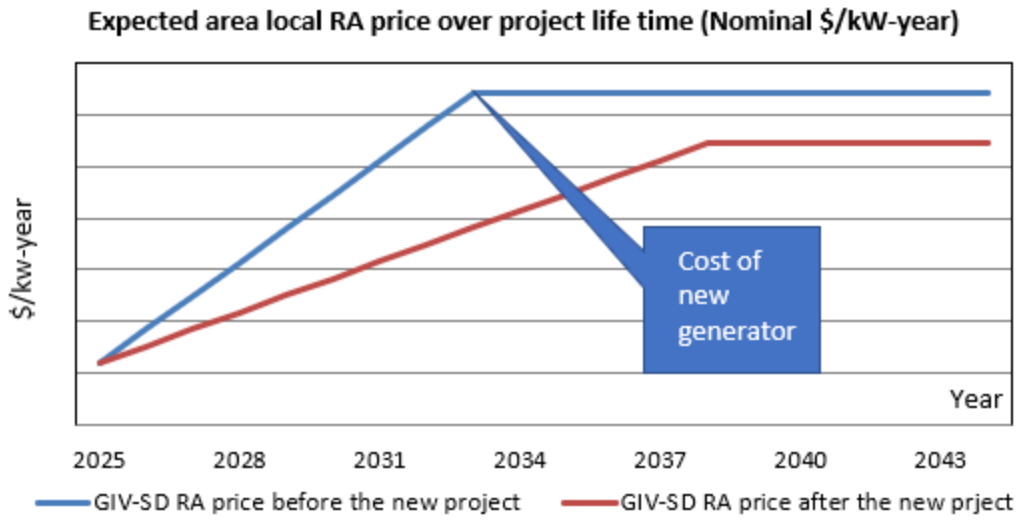
APPENDIX A.

SDG&E notes that in the 2018-2019 planning cycle, the CAISO used the difference between ***near-term local*** capacity prices and ***near-term system*** capacity prices to assess the economic benefits of transmission projects that are proposed to reduce LCRs. The near-term capacity prices used by the CAISO were based on the CPUC's most recent 2017 Resource Adequacy Report.

SDG&E has some concerns regarding the CAISO's new RA price forecasting approach. The CPUC's 2017 Resource Adequacy Report reflects only near-term (less than 5 years) system and local RA capacity prices. Near-term price forecasts are not an accurate representation of capacity prices for time periods in the future when a potential transmission project could be placed in-service and operational. Long-term price forecasts which account for forecast LCR, projections of existing and committed amounts of RA capacity within the LCR area, and estimates for the Cost of New Entry (CONE) when projections of existing and committed amounts of RA capacity are less than the forecast LCR, are needed to evaluate the cost-effectiveness of potential transmission projects. By doing so, consideration of project construction timeframes, which may take as long as seven years, and appropriate asset economic life can be accounted for.

Specifically, SDG&E's proposed approach is to forecast longer term (corresponding to asset lives of 50 or more years) capacity prices by considering resource scarcities over time, the cost of building new generators that will comply with California's policies (e.g. SB100) including the replacement of such generation when their useful economic lives end, and the impact of future technology improvements on zero-carbon resources' costs (e.g. storage). The graph below illustrates such a methodology:





SDG&E notes that important studies by the CAISO have been previously conducted using the approach proposed by SDG&E in these comments. SDG&E is unclear why, in the current transmission planning cycle, the CAISO has chosen to use a different approach for forecasting long-term RA capacity prices. Frequent changes to the LCR reduction benefit methodology creates uncertainties and difficulties for stakeholders working on potential LCR reduction projects.

SDG&E encourages the CAISO to consider launching a stakeholder initiative that would enable stakeholders to collaboratively develop a more robust and more permanent LCR reduction benefit methodology.