California Public Utilities Commission
Commitment Cost Enhancements Phase 2
Draft Final Proposal February 9, 2015

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The Staff of the California Public Utilities Commission (CPUC Staff) appreciates this opportunity to comment on the California Independent System Operator's (CAISO's) Commitment Cost Enhancements (CCE) Phase 2 Draft Final Proposal. In general, CPUC Staff agrees with the CAISO's proposal to more accurately approximate actual costs used to make generation unit commitment decisions. However, CPUC Staff has significant concerns with the potential negative implications for long-term, Commission-approved contracts from the implementation of the CAISO's proposal.

Summary:

The CCE Phase 2 draft final proposal reiterates that the CAISO will recognize only non-economic use limitations and would exclude resources from qualifying as use-limited based on operating limitations (e.g., the number of starts) or other provisions contained in contracts, even if these contracts have been considered and approved by the California Public Utilities Commission.

While CPUC Staff supports the general intent of the CCE Phase 2 design, the proposal should be modified to allow resources that have CPUC approved long-term contracts with stipulated operational and/or contractual limits to be defined as Use-Limited Resources (ULRs). This will ensure that these resources are optimally dispatched throughout the year.

In its current form, the CAISO proposal could result in additional ratepayer costs and/or contract breaches if, for example, resources are dispatched that have already exceeded their contractual limits on number of starts. Therefore, CPUC Staff requests that the CAISO consider expanding its definition of ULR to include operationally or contractually constrained resources under long-term contracts explicitly approved by the CPUC. Such treatment would be consistent with recognition of use-limitations imposed based on other regulatory processes (e.g., emissions limitations or other environmental limitations).

Discussion and Comments:

CPUC Staff shares the concerns of San Diego Gas and Electric (SDG&E) that some contractually use-limited resources will be at risk of not fulfilling their Resource Adequacy (RA) obligations as originally intended. CPUC Staff is concerned that CPUC jurisdictional Load Serving Entities (LSEs) who entered into long term contracts containing start, run hour, or other limits, may be over-committed by commitment cost rules. This would expose those LSEs to Capacity Procurement Mechanism (CPM) and Resource Adequacy Availability Incentive Mechanism (RAAIM) penalties, resulting in additional and unquantifiable ratepayer costs.

Defining ULR capacity[1] as those resources with capacity limitations established by statutes, regulations, ordinances, or court order is generally appropriate; however, the definition should be expanded to include limitations for resources procured under existing procurement rules and subject to a long-term contract approved by the CPUC. CPUC reviews and approves long term contracts to ensure that their terms are consistent with both CAISO and CPUC RA rules, thus helping to ensure reliability on behalf of all customers. Such RA resources would, barring unplanned outages, be expected to provide year round system and/or local RA capacity and their approval was premised on this obligation. If contractual limitations are not taken into account by the CAISO's commitment process, resources could be overcommitted early in the year. The result could be that these resources are unavailable during peak load times later in the year. The potential unavailability of these plants could raise reliability concerns and we urge the CAISO to reconsider their position with regard to this issue.

In the long term, if LSEs cannot contract based on economic factors, RA contracts may become significantly more expensive. This represents a potential ratepayer impact not considered in this initiative.

CPUC Staff, therefore, recommends that CAISO expand the definition of URL for at least a three-year period to include resource with contractual limitations contained in long-term contracts considered and approved by the CPUC. This three-year period should provide the CAISO and CPUC time to explore impacts to RA capacity. It would also allow the generators, LSEs and scheduling coordinators sufficient time to consider the cost and feasibility basis for renegotiating long term procurement contracts.

[1] http://www.caiso.com/Documents/DraftFinalProposal_CommitmentCostEnhancementsPhase2.pdf, Pg. 9.