

Black Start and System Restoration Phase 2 Straw Proposal

Department of Market Monitoring
March 9, 2017

The Department of Market Monitoring (DMM) appreciates this opportunity to comment on the Black Start and System Restoration Phase 2 Straw Proposal. The ISO's proposal describes changes to the ISO's current black start service procurement and compensation practices. Specifically, the ISO proposes to secure additional black start capacity through "an open and transparent competitive procurement process" and then allocate the incremental costs of providing black start capacity to the Participating Transmission Area where the incremental black start capacity will be providing black start system restoration capability.¹

The limited number of resources available to provide black start capacity raises market power concerns that should be considered in this initiative. As mentioned in the issue paper, based "on its engineering assessments, the ISO is aware of a relatively small set of generation resources in the Greater Bay Area that are available to meet the identified need and the procurement process should reflect and be appropriate for these circumstances."² The paucity of resources capable of providing effective black start service is one indicator of a level of market concentration which may result in the exercise of market power. A lack of significant competition may result in an uncompetitive outcome without additional market power mitigation mechanisms.

DMM supports the ISO's proposal to use a cost of service model as a basis for both black start service offer evaluation and black start service provision compensation. The straw proposal characterizes this approach as basing compensation on "a cost of service model that reflect[s] capital and fixed operations and maintenance costs plus a reasonable margin."³ Any offer would thus contain separate terms, the first accounting for the incremental capital cost of adding black start capacity to an existing resource and the second accounting for the ongoing incremental cost of providing black start service. It is DMM's understanding that any accepted offer will be reviewed by FERC to ensure that is reasonable. DMM recommends that the ISO clarify in the Draft Final Proposal any other processes that the ISO is proposing to use to evaluate whether black start service offers or provision costs are reasonable before the final selected offers are sent to FERC.

One option for the ISO to consider adopting is a soft offer cap for offers submitted in the black start capacity RFP, similar to the market power mechanism in place for capacity

¹ Black Start Straw Proposal: http://www.caiso.com/Documents/StrawProposal-BlackStart_SystemRestorationPhase2.pdf

² Black Start issue paper: http://www.caiso.com/Documents/IssuePaper_BlackStart_SystemRestorationPhase2.pdf

³ Black Start Straw Proposal: http://www.caiso.com/Documents/StrawProposal-BlackStart_SystemRestorationPhase2.pdf

offers submitted in the competitive solicitation process from which the ISO selects capacity to receive a capacity procurement mechanism designation. In principle, relying on a soft offer cap to limit black start offers to incremental cost would mitigate market power concerns in the offer process itself.

On the Straw Proposal stakeholder call, there was discussion about relying solely on the PTO to select the winning offers. However, a PTO tasked with selecting offers from a pool including resources controlled by an affiliated market participating entity would have to justify the selection of a final offer as optimal without consideration of returns to the affiliated entity. To avoid the appearance of bias in selection, it could be more appropriate for an independent entity to make the final selection on the basis of cost and merit.

The ISO has asked for stakeholder feedback on the appropriate term for any contract to provide black start capability and whether selection criteria should assess the likelihood that a resource will operate for the duration of the black start agreement. The proposal suggests that a resource receiving a black start contract would be committed to provide that service for a five to ten year term with a one year notice requirement. The one year notice requirement is intended to allow the ISO to negotiate a Reliability Must Run (RMR) agreement to bridge procurement of a replacement black start capacity resource.

A resource selected to provide black start service may have the ability to exercise market power in negotiation of any long term capacity payment necessary to cover the going forward fixed cost of resource operation for the term of the black start contract. As noted by the proposal, black start service compensation is anticipated not to “provide sufficient revenue to keep an otherwise uneconomic resource in operation”.⁴

As a result, DMM recommends that the ISO propose that the black start offer selection process take the existence of a long term capacity contract into account. If the resource selected to provide black start capability does not have an existing long term capacity contract, the resource will have leverage to force the ISO to choose between giving the resource an RMR contract and procuring a replacement black start capacity resource. Therefore, the benefit of selecting a resource that has an existing long term contract should be considered along with other costs and benefits in the offer selection process.

DMM supports the proposal to allocate the incremental black start capital and ongoing provision costs to all transmission customers within a PTO transmission access charge area. This is a reasonable application of the FERC Order No. 1000 principle that costs must be allocated in a way that is roughly commensurate with benefits. Incremental capital costs or ongoing costs incurred to maintain black start capacity should be borne by those entities benefiting from that black start capability, rather than a subset of those benefiting.

⁴ Ibid.