

# Comments of PG&E on the CAISO's Draft Final Standard Resource Adequacy Capacity Product Straw Proposal

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## I. Introduction

PG&E continues to believe that the CAISO's Standard Capacity Product (SCP) proposal makes incremental strides towards defining a uniform set of availability standards and penalties. PG&E does *not* believe that the CAISO's current proposal is ready for adoption. At a minimum, the following two aspects of the CAISO's proposal must be fixed prior to adoption:

First, the CAISO's proposal does not do enough to increase the tradability of the SCP and reduce compliance costs for load-serving entities. In particular, the CAISO's proposal continues to require LSEs to replace an RA resource within the year in the event that the resource takes scheduled outages that are inconsistent with the volume of RA sold by the resource. To become a truly standard and tradable product, the SCP must eliminate the obligation on LSEs to replace RA that has already been purchased.

Second, the CAISO's proposal for grandfathering potentially would preclude the use of many existing contracts for RA compliance. Any approach to grandfathering should allow all existing contracts to continue to be used for RA compliance.

These two points are discussed below as well as some additional points.

## II. Tradability and compliance

In section 3, of the Draft Final Proposal, the CAISO notes that there was not consensus in the stakeholder process that "The LSE's responsibility should end with the submission of their RA plans." PG&E believes that this simplification of compliance is a critical aspect of any SCP proposal and that the ISO cannot meet its goal of establishing a product that is "fungible and easily traded," without this aspect. As long as the behavior of a specific counterparty can affect an LSE's compliance within a compliance period, then the SCP is not truly standard. RA MW from different suppliers will trade at potentially different prices based on expectations about counterparty performance.

The treatment of scheduled outages in the RA counting rules seems to be the main obstacle to allowing an LSE's compliance obligation "to end with the submission of their RA plans." In R.08-01-025, the CPUC's Energy Division recently proposed "to remove the Scheduled Outage counting rules adopted in Section 3.1 of D.06-07-031, thereby removing the need for LSEs to be involved in the scheduling of scheduled outages of RA

generators. Beginning in compliance year 2010, units on a CAISO-approved scheduled outage would be eligible to count for RA with no derate or replacement obligation due to scheduled outage.”<sup>1</sup> PG&E proposes that the CAISO incorporate CPUC Energy Division’s proposal into the SCP proposal. With the elimination of the scheduled outage counting rules, PG&E further proposes that the CAISO modify the SCP proposal so that an LSE’s compliance obligation ends with the submission of SCP tags.

PG&E recognizes that the elimination of scheduled outages from the RA counting rules likely will require the CAISO to establish clear criteria for levels of scheduled outages that are “excessive,” guidelines for backstop procurement through ICPM or other means in the event that excessive scheduled outages occur, and rules for the allocation of costs associated with any consequent backstop procurement.

### **III. Grandfathering**

The CAISO’s proposed approach to Transition Issues in section 9 of the Draft Final Proposal is unacceptable to PG&E. The CAISO recommends that contracts with “availability standards and incentives...at least equal to the requirements set forth in the SCP tariff language” be exempted from the provisions of the SCP, i.e., that they continue to be allowed to be used to meet RA obligations. The introduction of SCP should be minimally disruptive of existing commercial arrangements. PG&E proposes that the CAISO exempt all existing contracts from the SCP tariff provisions.

PG&E concurs with the CAISO’s proposal that all contracts signed going forward include availability/performance provisions at least as stringent as SCP’s. It is unclear that the proposal needs to differentiate between contracts signed between January 1, 2009 and SCP adoption and contracts signed after SCP adoption. In order to assess the stringency of the availability provisions of a contract, the CAISO will need to establish a metric. For example, the provisions in many tolling agreements punish non-performance in the highest demand months and hours disproportionately relative to the CAISO’s proposed availability standards. How will the CAISO determine whether these provisions are as stringent as SCP?

### **IV. Other issues**

#### **A. AS MOO**

As iterated previously, it is critically important that PG&E maintain control of its own hydro resources so that it can meet environmental constraints and dispatch its hydro resources economically in ways that the CAISO’s market software is simply not designed

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<sup>1</sup> R.08-01-025, Phase 2—Energy Division Staff Proposals, Proposal 5, filed January 9, 2009.

to do. PG&E opposes any weakening of the hydro exemption described in the fourth numbered bullet of page 10 of the CAISO's Draft Final Proposal.

B. SCP availability standards for wind, solar, QF, and demand response resources

PG&E supports the CAISO's proposal to defer the application of SCP availability standards to wind, solar, QF, and demand response resources. Availability standards must be closely coordinated with the Qualifying Capacity (QC) counting rules. Given the current uncertainty over QC counting rules for intermittent renewable resources, for example, it is premature to establish availability standards for the same resources.<sup>2</sup>

C. Performance penalties

PG&E continues to believe that the performance penalties in the CAISO's SCP proposal are insufficiently linked to the value of capacity over the course of a year. At a minimum, some monthly shaping of the "ISO backstop replacement cost of capacity" in the financial penalty formula is warranted. This shaping could be based on monthly system load, the monthly shaping of capacity payments pursuant to QF contracts, or wholesale power prices.

D. Unit substitution

PG&E would like the CAISO to articulate how the "comparability" of different resources will be determined. PG&E restates its previous concern that, to the extent that resource substitutability is determined by the subjective judgment of the CAISO, the SCP is not truly standard.

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<sup>2</sup> Various proposals for QC counting rules for intermittent renewable resources are being considered currently in R.08-01-025.