Stakeholder Comments

Commitment Cost Enhancements Phase 3 Draft Final Proposal

Submitted by	Company	Date Submitted
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The following are Southern California Edison's (SCE) comments on the California Independent System Operator's (CAISO) February 17, 2016 Draft Final Proposal[1].

SCE encourages the CAISO to use any implementation delay to invest more time considering stakeholder comments on improving the outcome of this initiative. One such improvement is the six-month offline run with contemporary market data, as opposed to the static snapshot provided by the CAISO during the technical workshop. SCE also recommends the CAISO clarify how market participants would demonstrate compliance instrument availability, as well as clarify how the DMM would validate costs included in the MMA. Further, SCE recommends that the CAISO not assume zero commitment costs for PDRs. Regarding new resources, the CAISO should use proxy LMPs to calculate opportunity cost data for these resources until there is sufficient actual price history.

SCE does not support CAISO's proposal to impose startup capability restrictions beyond the currently defined RA characteristics, as the CAISO has not shown any justification. Finally, while SCE supports the CAISO's proposal on grandfathering regulator-approved contracted resources, a true grandfathering for the life of the contract would be more appropriate. The proposed three year period only delays addressing the problem.

CAISO policy should closely coordinate with implementation team

In its 2016 Release Plan, the CAISO indicated the Commitment Cost Enhancements 3 (CCE3) initiative is "Moved from Fall 2016". However, when asked during the CCE3 stakeholder call, there was confusion about the correct implementation timeline which was not resolved on the call. If the implementation is in fact delayed, the CAISO should use the

[1] http://www.caiso.com/Documents/DraftFinalProposal-CommitmentCostEnhancementsPhase3.pdf

additional time to more thoroughly consider stakeholder comments, especially given that this initiative has changed dramatically since it was first presented.

CAISO should validate sustained opportunity cost model results

In the final proposal, the CAISO states that there is no need to do a six month offline run, as it presented a "dry run" of the optimization model during the technical workshop[2]. SCE disagrees. The CAISO presentation was limited in scope. SCE strongly suggests that CAISO (1) consider a sustained parallel-operations period, using contemporary market data[3] for direct comparison to what Market Participants derive; (2) regularly share the results with Market Participants so that any issues can be identified, corrected and tested; and (3) establish criteria for monthly refresh frequency[4]. An offline (parallel-operations) period will allow the CAISO and Market Participants to analyze the model inputs and the resulting opportunity costs to ensure they are valid. Resources can be subject to multiple overlapping monthly and annual limitations, so it is critical that the cost calculation methodology is well-vetted, as incorrect values can result in prematurely exhausting resource availability, decreasing system flexibility and reliability.

CAISO should clarify treatment of resources with soft caps under the Revised Use-Limited Definition

In its Revised Use-Limited Definition, the CAISO states that "Restrictions with soft caps that allow the resource to increase production above the soft cap through purchasing additional compliance instruments are not acceptable restrictions." The CAISO should carefully consider how this will work in practice. How do Market Participants demonstrate the availability of compliance instruments? What happens if compliance instruments are not available for purchase? How will CAISO account for the cost of additional compliance instruments?

CAISO and DMM should clarify the Major Maintenance Adder negotiation process

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[2] http://www.caiso.com/Documents/Agenda-presentation_CommitmentCostEnhancementsPhase3-TechnicalWorkshop_Jul20_2015.pdf

[3] The data used by the CAISO for the technical workshop was not contemporary market data appropriate to an offline run. The CAISO presented results using 2013 HASP LMPs; a current, offline run would use 2015 FMM LMPs.

[4] The CAISO had identified processing time requirements as a potential hindrance to frequent opportunity cost updates (monthly, at minimum). The technical workshop demonstration did not provide any insight to CAISO's intended update process.

The CAISO has consistently referred to MMA as the way to represent costs associated with wear and tear or economic judgement. However, some of these tradeoffs are not necessarily associated with major maintenance events. SCE requests the DMM to provide its perspective on what criteria will be used to determine the appropriate MMA when the contract is the only available document setting the design parameters of a resource. Specifically, given the various interactions between the DMM and the CAISO, what specific approach would the DMM use to validate the submitted costs?

CAISO should consider the possibility of commitment costs for Proxy Demand Resources

In its Draft Final Proposal, the CAISO stated that "To date, proxy demand resources (PDR) have had zero commitment costs." While this may currently be true, demand response integration in the CAISO is still in its early stages. It would be premature to state that these resources will never have a commitment cost. In fact, SCE has considered an approach to define PDR commitment costs, but the current structure makes it difficult to do so. By ruling out commitment and opportunity costs for PDR up front, the CAISO will be potentially limiting the future integration of PDR.

CAISO should consider full grandfathering of regulator-approved contracts

SCE appreciates and supports the CAISO's proposal to consider contractual limitations for resources procured with regulatory approval. However, SCE proposes that CAISO consider full grandfathering of these resources, without any time restriction. A three-year grandfathering limit simply delays any ultimate resolution of the issue. As also mentioned by the MSC, during their February 11 meeting, contracts approved by regulators have been thoroughly evaluated and their limitations are appropriate, considering the interests of ratepayers. The CAISO proposal to limit grandfathering would only place utilities in a position of having to renegotiate thousands of megawatts of contracts. This forced renegotiation will increase prices by shifting contractual limitations into the cost structure and in turn put the new contracts at risk of being rejected by a regulator.

CAISO should consider the option of calculating opportunity costs using a proxy LMP for new resources

In its Draft Final proposal, the CAISO states that a new resource without one year's worth of LMPs will remain on the Registered cost option until historical LMPs are recorded. SCE proposes a negotiated option that allows the CAISO to use proxy LMPs to calculate opportunity costs for such resources until enough data is acquired to use historical LMPs. A Market Participant calculating its own opportunity costs will be faced with the same challenge.

CAISO should align its allowed Market Characteristic of Maximum Daily Starts with the RA Categories

SCE was in favor of the previous proposal which stated that market-based values must support RA showings of the resource. In its Draft Final proposal, the CAISO has now changed the requirement to a minimum of two starts per day, calling one start per day "overly restricted." However, only RA Flex Category 1 has a minimum requirement of two starts per day. Flex Category 2 has a requirement of one start per day and these were the guidelines used in the resource procurement process. RA Categories were created with reliability criteria in mind, and SCE does not support the concept of overlaying additional, more restrictive parameters that do not align with the established RA Categories. SCE urges CAISO to reconsider this proposal.