Stakeholder Comments

Commitment Cost Enhancements Phase 3 Revised Straw 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) November 3, 2015, Revised Straw Proposal[1].

SCE supports parts of the proposal

SCE supports the use of the optimization based approach. Based on the CAISO's proposal and presentation[2], the optimization approach will maintain the monthly updates but be more accurate than the heuristic approach, more so under multiple constraints. SCE also supports the CAISO's proposal to update limits using actual commitment and dispatch information for a resource, throughout the calendar year. Incorporating increasing commitment constraints on resources, as the year progresses, should produce more accurately estimated costs.

The CAISO should address the FERC's concerns

As brought up during the November 9 stakeholder call, SCE requests that the CAISO address the questions raised by the Federal Energy Regulatory Commission (FERC) on paragraph 35 of their order[3]. Specifically, the FERC states, "CAISO has failed to discuss in sufficient detail the interaction of contractual limitations with economic and non-economic limitations, and has not supported its position that allowing economic limitations could unnecessarily reduce CAISO's flexibility in ensuring reliability." During the call, the CAISO cited its proposal as a response, "If the ISO were to accept contractual limitations to deem a resource eligible for opportunity costs, there is an incentive to include these types of restrictions in all contracts and therefore

[1] http://www.caiso.com/Documents/RevisedStrawProposal-CommitmentCostEnhancementPhase3.pdf
[2] http://www.caiso.com/Documents/Presentation-CommitmentCostEnhancementsPhase3-RevisedStrawProposal.pdf
[3] http://www.caiso.com/Documents/Sep9_2015_OrderAccepting_Part_Rejecting_PartProposedTariffRevisions_CommitmentCostEnhancementsPhase2_ER15-1875.pdf

enable market participants to dictate the resources' commitment costs." This details an economic constraint, not a reliability impact. Should a resource choose to increase its commitment costs by quantifying contractual limitations in these costs, then this is still an economic constraint. If supply resources were to increase their costs in such a manner, that would result in an increased cost of supply, hence a higher clearing market price. This would still be an economic consequence. A higher supply cost does not imply that the CAISO would encounter reduced flexibility in ensuring reliability.

While SCE believes that resources should provide their physical capabilities and not mask such capability with pricing mechanisms through contracts, SCE also recognizes that not all physical capability comes at a single price. Particularly with new developments in resources for which there is limited operational experience (*e.g.*, battery storage), while there is the potential for rapid and frequent changes in output, it is not clear that such operation would not be detrimental to the equipment. Finally, there are resources for which the contract is the only meaningful use limitation. This is certainly the case for demand response which physically could curtail in any and all intervals. It is not reasonable to assume that just because the demand response could physically operate in such a manner that the customers providing such a service would voluntarily adopt such a mechanism. In addition, while the FERC deferred energy storage bid insertion and residual unit commitment questions to the Energy Storage and Distributed Energy Resources Stakeholder Initiative, the Draft Final Proposal for that initiative failed to address those issues in. SCE recommends that energy storage and demand response resources be considered use-limited while the market gains a better understanding of how those resources will be used. Energy storage resources are use-limited by design, and it is impossible to separate economic considerations from the contracting process.

SCE also does not support the CAISO's interpretation of the FERC's questions on granting default use-limited status. In SCE's experience the use-limited registration process is already administratively burdensome, even with many resource types defaulting to use-limited status. SCE does not support adding additional steps to that process without a clear improvement to reliability.

SCE strongly recommends that the CAISO run a six-month parallel test

As stated in its prior comments[4], SCE reiterates its request that the CAISO run a parallel test prior to any implementation. This proposal is a significant and massive undertaking. Given the frequency of updates and the difficulty in modeling opportunity costs, ensuring a smooth transition is dependent on prior testing and monitoring and fixing any problems early. This will allow the CAISO to correct for any unforeseen algorithm issues as well as address any potential inaccuracies in the calculated costs.

The CAISO should provide more details and address the questions of other stakeholders

Several questions and requests for details were raised during the November 9 call. Among them, SDG&E asked the CAISO to address other areas in the FERC order, as well as to consider honoring contracts approved by regulatory agencies such as the CPUC. The proposal also lacks detail on how Demand Response will be treated and PG&E's note that detail on the registration process is lacking. SCE requests that the CAISO address these topics raised by the stakeholders.

[4] http://www.caiso.com/Documents/SCEComments_CommitmentCostEnhancementsPhase3-StrawProposal.pdf