Stakeholder Comments

Commitment Cost Enhancements Phase 2
Revised Straw Proposal

Submitted by	Company	Date Submitted
Brian Rothstein (626) 302-3555 Brian.Rothstein@sce.com	Southern California Edison (SCE)	January 16, 2015

Southern California Edison (SCE) appreciates the opportunity to comment on the California Independent System Operator's (CAISO) Refinements to Commitment Cost Enhancements Phase 2 Revised Straw Proposal[1]. SCE also appreciates the additional details and illustrative examples CAISO provided for the Straw Proposal, that help in understanding the more technical aspects of it.

Use-Limited Resource (ULR) Definition and Registration Process

The CAISO has revised the Straw Proposal to replace the definition of "Use Limited Resources" (ULRs) with a new definition for "Use-Limited Capacity". SCE agrees with the CAISO's assertion that resources can potentially have periods or ranges where they are non-use-limited, it is not apparent why this tariff change is necessary. It is also unclear if the CAISO proposes that the (resource-level) registration process for ULR status will be similarly revised to become capacity-based.

SCE does not support narrowing the scope of the ULR definition to exclude design considerations. Energy storage technologies are new and the vast majority of energy storage resources are still in development. The CAISO should recognize that energy storage resources

[1] *Revised Straw Proposal – Commitment Cost Enhancements Phase 2* (http://www.caiso.com/Documents/RevisedStrawProposal-CommitmentCostEnhancementsPhase2.pdf)

will have design considerations limiting their effective use that are not backed by a statute, regulation, ordinance or court order, and should make allowances for technological limitations. SCE recommends that the CAISO not rule out the likelihood of storage resources with operational limitations that cannot be fully optimized within the applicable market time horizon.

Opportunity Costs

In the Revised Straw Proposal, CAISO proposes to refresh the opportunity cost model quarterly[2]. SCE asks the CAISO to consider a monthly refresh cycle. Monthly refreshes would be more reasonable and may reduce the need for otherwise unplanned updates triggered by events such as significant network, gas price, or Master File changes. SCE is concerned with scenarios in which a given resource's limited number of starts or run-hours are exhausted early in a compliance cycle. This could be the result of a calculated opportunity cost that is too low, or by other market factors. Will Scheduling Coordinators have the ability to trigger a re-calculation of opportunity costs, taking into account the relative small number of remaining starts/run-hours? Since many of the current ULRs are fast-start gas peakers, they are dispatched based on real-time prices which are very difficult to forecast.

Should a resource prematurely approach its use limits, SCE believes that attempting to maintain its availability to the market, by recalculating its opportunity cost, would be preferable to reaching the limit and rendering the resource unavailable.

SCE encourages the CAISO to work collaboratively with stakeholders to review the results from the prototype opportunity cost model and make any necessary enhancements. SCE supports any efforts that the CAISO can take to provide SCs with the assurance that the CAISO-calculated opportunity costs are reasonable, whether it be through resource-specific results from the prototype, or through a provisional "trial" period where the costs are calculated in parallel with the market, but are not operationally or financially binding.

[2] *Ibid, p.29*

Transition Costs

SCE supports the CAISO's proposal to simplify the calculation of Transition Costs. It is logical to consider Transition Costs as the incremental Start-Up Cost between the "from" and "to" configurations of a Multi-Stage Generating (MSG) Resource. Only one Start-Up Cost per unit cycle is considered in Bid Cost Recovery (BCR) calculations. The CAISO's proposed Transition Cost calculation would allow MSG resources to represent their highest per-unit-cycle Start-Up Cost in BCR calculations, as the sum of the initial Start-Up Cost, plus incremental Start-Up Costs (Transition Costs). Additional incremental Transition Costs would be calculated should a resource be transitioned downward and back upward again during the unit cycle. SCE agrees with the CAISO's proposal not to calculate Transition Costs for downward transitions.

Greenhouse Gas Costs

SCE supports the CAISO's decision not to propose policy changes at this time. Until natural gas suppliers have a CPUC-approved program for passing on those costs to their customers, it is premature for CAISO to make policy proposals. SCE notes that there may be a "catch-up" period in which natural gas suppliers may increase GHG costs to their customers in order to recover costs incurred from January 1 2015(when the gas suppliers became covered entities) until such time as they are able to flow those costs to customers. SCE recommends that CAISO consider this as they plan for their eventual changes to GHG commitment costs.

Default Variable Operation and Maintenance Costs

SCE recommends that CAISO also review the calculation of the auxiliary power cost component of a resource's Start-Up Cost. Per the current CAISO BPM for Market Instruments, the cost estimation of auxiliary power needed for start-up is:

"…calculated by using an estimated electricity price equal to the projected gas price multiplied by a factor of 10. This represents a projected electricity price during unit start-up or cost of

auxiliary power provided by the generator based on a unit with a heat rate of 10,000 Btu/KWh."[3]

This commitment cost calculation appears somewhat arbitrary and worthy of review by the CAISO.

Default Major Maintenance Adders

SCE previously recommended that the CAISO adopt "safe harbor" values for major maintenance adders as part of the Commitment Costs Refinements 2012 stakeholder process[4]. SCE continues to strongly support this direction. SCs often do not have the required major maintenance cost documentation for resources under contract. Adders within the default range would be incorporated into a resource's commitment costs in the event that the SC cannot provide documentation supporting costs above the defined range.

---

[3] *CAISO Business Practice Manual for Market Instruments, p.G-3:* (http://bpmcm.caiso.com/BPM%20Document%20Library/Market%20Instruments/BPM_for_Market%20Instruments_V35_clean.doc)

[4] *SCE Comments to the CAISO Commitment Costs Refinements 2012 Draft Final Proposal, p.2:* (http://www.caiso.com/Documents/SCE_Comments-Commitment%20CostsDraftFinalProposal.pdf)