Stakeholder Comments

Commitment Cost Enhancements Second Revised Straw Proposal Issued July 15, 2014

Submitted by	Company	Date Submitted
Wei Zhou – (626) 302-3273	Southern California Edison (SCE)	July 30, 2014

SCE thanks the California Independent System Operator (CAISO) for the opportunity to comment on the Commitment Cost Enhancements Second Revised Straw Proposal (the Proposal)[1]. The change in the Proposal is to defer the opportunity cost model to a separate initiative, with other elements unchanged from the original Straw Proposal[2].

With the deferral of the opportunity cost model, although for a good reason[3], there is a major issue in economically managing use-limited resources (ULRs) in the CAISO markets. In addition, some resources (ULR or not) may not be able to recover actual costs in excess of the proposed 125% proxy cost cap.

Due to these issues and others described herein, SCE opposes the Proposal as written. SCE requests that the CAISO maintain the Registered Cost option until the issues are adequately resolved.

1. ULRs cannot be economically managed under the CAISO Proposal.

ULRs are important resources in the CAISO markets, providing critical grid reliability services and quickly accessible energy. With the proposed elimination of the Registered Cost option and reducing the cap from 150% to 125%, there will likely be insufficient "headroom" for many ULRs to incorporate opportunity costs in their

---

[1] CAISO Second Revised Straw Proposal on Commitment Cost Enhancements: http://www.caiso.com/Documents/CommitmentCost_SecondRevisedStrawProposal_071517.pdf

[2] http://www.caiso.com/informed/Pages/StakeholderProcesses/CommitmentCostEnhancements.aspx

[3] SCE supports deferring the opportunity cost model as it is currently not ready for production use. SCE also suggests maintaining the Registered Cost Option until the opportunity cost model is fully developed.

commitment cost bids. The resulting artificially low bids will result in inappropriate resource commitments, potentially (and prematurely) exhausting the limited run hours and/or available startups, and ultimately rendering the resources unavailable. Hypothetically, as an option, an opportunity cost could be factored into the resource's energy bids. However such option is not available for ULRs with PMAX close to PMIN. Even if this option is available, it is neither efficient (see Item #3 below), nor effective due to potential local market power mitigation (LMPM) actions taken by CAISO.

As stated by the CAISO, ULRs would then have to be managed solely based on a ULR use plan under the CAISO Proposal. SCE strongly advises against the idea of solely managing the use limits using a ULR use plan. If a generator is started or run more often than indicated in the use plan due to the persistence of higher prices which the scheduling coordinator (SC) did not forecast, then the starts/run time may be exhausted before the end of the month. On the July 22 stakeholder call, CAISO suggested that SCs respond to such a scenario by not bidding the resource(s). This approach would harm market efficiency. If the generator is not bid into the market, the generator is then not available for dispatch in the event of a system emergency and/or continued higher prices (without some form of Exceptional Dispatch). This scenario is untenable from a market perspective, and inferior for reliability. The CAISO should not rely on market structures that require parties to "not bid" to avoid prematurely reaching the use limits.

2. **The Proposal is problematic given the current review/approve process for Major Maintenance Adder (MMA), which should be improved before implementing the proposed changes.**

With the cost cap reduction from the current 150% down to 125%, many resources may not be able to recover their actual commitment costs. Per SCE's understanding, in situations where the scheduling coordinator (SC) may not have access to actual cost data but contract data, the contract cost may only be approved up to an "industry average" value, and any portion above the industry average will likely be denied,

potentially excluding recovery of legitimately incurred contract costs. The CAISO Department of Market Monitoring (DMM) and/or Potomac Economics should clarify the details of such a process. Costs exceeding an "industry average" should not be denied simply based on how broad the grouping is defined to find the average, or solely because such costs are "contract-based." Instead, a clearly defined, transparent process should exist to address these situations to ensure legitimate costs are allowed, in order to avoid market inefficiencies that could otherwise arise.

3. **There is a potential that the Proposal may cause market inefficiencies when actual commitment costs exceed the 125% cap and, as a result, some of the commitment costs may be included in the energy bids.**

Although the Proposal may reduce market uplifts and therefore increase market efficiencies, CAISO has not demonstrated this through any market-based data. When the 125% cap is insufficient to capture legitimate commitment costs, it is likely some of the costs would flow into energy bids or would be shifted among start-up and min-load costs. Any of these outcomes harms market efficiency. For example, a possible outcome not properly putting star-up/min-load/and energy costs in their appropriate "bucket" could be a resource being committed, but dispatched at PMIN for prolonged periods (as the 125% cap would understate the actual commitment costs, and the higher energy bid does not apply at PMIN). This is similar to the outcome during the February 6, 2014 event when resources were also dispatched at PMIN; although due to a different reason then (lower-than-actual gas price indices), understated commitment costs and higher energy bids were the result. An additional potential impact is inflated LMPs, should the impacted resources become marginal. The CAISO should not force a design on the market that, while it may simplify administration for the CAISO, has the end result of harming market efficiency.

4. **SCE supports reactivating the Tariff provision regarding the manual adjustment process to address gas price spikes. In that process, the CAISO should also consider manually adjusting the gas price input on days when there is a significant gas price decrease.**

As SCE stated in previous comments, the measures described in the Tariff Waiver[4] seem appropriate to address gas price spikes. Similarly, the manual adjustment process should also apply in situations when there is significant gas price decrease, to guard against artificially high LMPs.

5. SCE supports deferring the opportunity cost model.

As previously stated, SCE supports deferring the opportunity cost model, as this allows the CAISO and its stakeholders more time to understand, modify, test and implement this tool. And as noted, we do not support eliminating the Registered Cost option until opportunity costs are more appropriately addressed.

[4] The measures that were approved by FERC but expired are described in: http://www.caiso.com/Documents/Mar6_2014_TariffWaiver_GasPriceIndexRequirement-Next-DayER14-1442-000.pdf