Stakeholder Comments

Commitment Cost Enhancements Phase 2
Straw Proposal

Submitted by	Company	Date Submitted
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SCE thanks the California Independent System Operator (CAISO) for the opportunity to comment on the Refinements to Commitment Cost Enhancements Phase 2 Straw Proposal[1].

SCE appreciates CAISO's attention to detail in consideration of these important and highly technical issues. SCE looks forward to providing additional feedback to the CAISO on their opportunity cost modeling process.

Use-Limited Resource Definition and Registration Process

SCE generally agrees with the CAISO's proposed definition for Use-Limited Resources (ULRs). One class of restriction that SCE finds to be absent from the new definition is "cyclical requirements", which appears in the current ULR definition. The new definition should reflect that storage resources which have cyclical requirements restricting their use are eligible for ULR status.

The CAISO's proposal includes a change in the Business Process Manual (BPM) for Reliability Requirements, for the ULR application process, requiring an annual affidavit from the Scheduling Coordinator (SC) affirming that the use-limited characteristics of each ULR remain applicable for the next year. SCE believes this is overly burdensome, considering the low likelihood of such status changes. Scheduling Coordinators submit to the CAISO both their

[1] *Straw Proposal – Commitment Cost Enhancements Phase 2*
(http://www.caiso.com/Documents/StrawProposal_CommitmentCostEnhancementsPhase2.pdf)

Master File data and in the case of ULRs, their use plans and supporting documentation. The current CAISO tariff prohibits:

"…misrepresenting the physical operating capabilities of an Electric Facility resulting in uplift payments or prices significantly in excess of actual costs."[2]

With this existing tariff rule, SCE believes that SCs have sufficient incentive to accurately represent their resources, including operating characteristics supporting designation as use-limited, and requiring additional documentation is unnecessarily duplicative.

Opportunity Costs

SCE supports the CAISO's proposal to model opportunity costs where feasible and allow negotiated opportunity costs where required. SCE appreciates the CAISO's efforts to expand their opportunity cost model to include monthly and annual limitations. The CAISO's general process description for determining what can (and cannot) be modeled is reasonable, as is the general description of the model and its inputs. SCE would like additional information, such as whether the model will accommodate rolling vs. calendar month/year calculations, or alternatively, if SCs would be required to calculate and provide opportunity costs for such limitations.

The CAISO proposes to refresh the opportunity cost model quarterly with the possibility of additional refreshes if:

> "…there are significant system or network changes; energy or fuel prices increase appreciably from what was assumed in the original model runs; or if there are significant Master File or use plan changes that impact how the resource is modeled."[3]

[2] CAISO Conformed Tariff – Section 39.3.1(4) – Market Power Mitigation Procedures (http://www.caiso.com/Documents/Section39_MarketPowerMitigationProcedures_May1_2014.pdf)

[3] *Straw Proposal – Commitment Cost Enhancements Phase 2, p.24* (http://www.caiso.com/Documents/StrawProposal_CommitmentCostEnhancementsPhase2.pdf)

SCE would like additional information about the proposed timing and process of updating the opportunity cost model and what additional triggers would prompt more frequent cost updates. For example, when a ULR is approaching its monthly or annual run limit, would that trigger an opportunity cost update? If a resource approached its limit(s) early in a monthly/yearly cycle, what steps would the CAISO propose to ensure that appropriate opportunity costs were calculated for the remainder of the cycle?

SCE requests that as a part of the Commitment Cost Enhancements Phase 2 stakeholder process, the CAISO provide resource-specific back-cast analyses from their commitment cost optimization model to stakeholders, so they can compare its output to that of their own models. Opportunity costs will be a component of many resources' bids and stakeholders will want some assurance that CAISO-calculated adders are appropriate. SCE recommends there be a provisional "trial" period upon completing this stakeholder process, where opportunity cost adders would be calculated by the CAISO model, reviewed by SCs, but not used in production bids. The CAISO has implemented similarly complex changes with a provisional period which has been useful in identifying issues before such changes became financially binding.

Transition Costs

Regarding proposed policy changes for commitment costs, SCE requests that the CAISO provide more information regarding the proposed changes to Transition Costs. SCE would also like to better understand the resulting benefits of the proposed changes versus the current methodology for calculating Transition Costs.

SCE generally supports the proposed BPM changes that would include Major Maintenance Adders (MMAs) in the calculation of Transition Costs.

Greenhouse Gas Costs

While SCE appreciates that the California Air Resources Board (ARB) has addressed a significant market issue with resources which may in some years emit below and in some years above the 25,000 MTCO^{2}e threshold, SCE does not believe that the mechanism for implementing the new system is well enough defined. That is, SCE's understanding is that below the threshold, generators will pay for the GHG associated with fuel burn to generate electricity through some form of charge associate with their gas usage. Above the threshold, it is apparent that the entity will become a compliance entity with the ARB. What is not clear is the transition mechanism between the two, or what rate making mechanisms will be adopted by the California Public Utilities Commission (CPUC) to enact this new regulation.

Until such time as the transition mechanism and the CPUC rate making treatment are clarified, SCE believes that it is too soon to implement changes to Greenhouse Gas (GHG) compliance costs for resources below the 25,000 $MTCO^2e$ compliance threshold. Should GHG costs be passed on to SCs in a comparable manner regardless of the compliance threshold, SCE agrees with the CAISO that all natural gas-fired resources should be able to include a GHG cost adder in their commitment costs, whether or not they are above the 25,000 $MTCO^2e$ compliance threshold.

SCE has been concerned with the large opportunity cost associated with a resource moving from below the 25,000 $MTCO^2e$ GHG compliance threshold to above it, and the CAISO's ability to reflect that cost in the resource's commitment costs. SCE believes that the CAISO should keep this scenario in mind as they implement changes to GHG commitment costs.

SCE also recognizes that the allocation of GHG allowances to natural gas suppliers could complicate the rate at which GHG compliance costs be passed on to their customers – if suppliers receive GHG allowances at no cost, and no cost is passed on to resources, those resources should not be able to reflect GHG costs in their bids.

As this initiative is not scheduled to go to the CAISO Board of Governors until March 2015, and the change to GHG covered entities is scheduled to occur in January 2015, SCE requests that the CAISO clarify how it proposes to comply with new GHG rules prior to Board and FERC approval.