SOUTHERN CALIFORNIA EDISON

Energy for What's Ahead℠

RMR/CPM Reform

CAISO Stakeholder Meeting
May 30, 2018

RMR and CPM Risk of Retirement

- RMR and CPM are increasingly becoming the mechanism to obtain resources that provide the services normally provided by Resource Adequacy
  - As such, the mechanisms should be modified to ensure that the obligations are equivalent to an RA resource
  - In addition, the compensation method that was once a trade-off of competitive market for capacity augmented by energy market rents will need to be made equivalent under a contract mechanism with the CAISO
- In summary, RMR/CPCM changes should be based on
  - Full must-offer of resources and a prohibition against self-scheduling
  - All bidding at default energy/cost levels
  - Cost-plus contract payments covering capital plus a reasonable return
  - Market rents above costs go to off-set contract payments

Must Offer Obligation

- In the market today, RMR and CPM RoR are used to procure resources that otherwise would provide RA and should be counted by the CAISO as meeting the RA need
  - All attributes provided by the resource should therefore be made available to the CAISO
    - System, Local, Flex
  - As such, the must offer obligation should be consistent with the must-offer obligation in RA
  - No self-scheduling should be allowed unless needed to work around optimization shortcomings
    - Example: Self-schedule in HE24 to prevent decomittment, and then a startup in say HE2 the next day

Must Offer Obligation Failure

- Similar to RA, penalties must be in place to provide proper incentive to maintain the resource as necessary to be available according to its obligation
  - RAAIM is primarily sufficient but modifications should be considered
    - Penalty price should be set at the capacity price in the RMR Agreement or the CPM RoR price for the resource
      - Since either of these can go above the current penalty in RAAIM, the penalty for RMR and CPM RoR should ensure that the resource cannot continue to make a return even if the resource is never available
      - Since the resource is provide a guaranteed return of and on investment through the RMR and CPM RoR, the RAAIM incentive payment should not apply
    - Replacement and Substitute capacity should be allowed just as they are for RA

Payment

- The RMR and CPM RoR payment should be a cost plus mechanism
  - Capital recovered through return of and return on investment
  - Energy compensated at cost
    - Default Energy Bid utilized for bidding of the resource
    - Allowed to set market clearing prices
      - Resource ultimately receives cost-based bid price with any excess energy rents paying down the capital/RMR contract costs
        - i.e. resource received the market clearing price but the difference between market clearing and their bid is a reduction to the RMR payment

Term

- RMR and CPM RoR remain a single year term
  - CAISO retains right for renewal which can be exercised if:
    - The resource is still needed and
    - Has not been procured by an entity for other capacity purposes (e.g. RA)

Cost Allocation of Cumulative Deficiency CPM

- Inter-year load migration causes CPM Collective Deficiency costs to be allocated inappropriately
  - Costs are allocated monthly on the peak load ratio share established by the annual peak demand forecast for the next RA compliance year as determined by the CEC*
    - Thus, Load migration not accounted for in the peak load ratio share would continue to be allocated to an LSE even after the load has migrated to a new LSE

* See sections 43A.8.3 and 40.3.2 of the CAISO tariff

Cost Allocation of Cumulative Deficiency CPM

- CPUC RA OIR PD (an entire sentence without a single word)
  - Placed the issue of allocation of Cumulative Deficiency costs with the CAISO

    "If this problem nevertheless persists, the CAISO – not the Commission – assesses and allocates the CPM charges and could more appropriately address this issue. Currently, an ongoing stakeholder initiative is considering changes to the CPM to address this issue, but the timing for resolution is unclear."

Cost Allocation of Cumulative Deficiency CPM

- Load migration is not a foreign topic to the CAISO tariff
  - Section 36.8.5.1 deals with this very issue for the purposes of reallocating Congestion Revenue Rights
    - Reallocates monthly based upon load changes due to customer migration
- SCE recognizes that this methodology will need some adjustment
  - CRRs are allocated based on historical load
    - Anticipated load migration not accounted for at the time of allocation
      - CRRs are transferred once the load migration actually occurs and is used as the future load for future allocation
  - RA includes anticipated load migration within the forecast
    - The cost allocation of a Cumulative Deficiency CPM would then need to account for the difference between the amount of load forecast to migrate compared to the amount that actually did migrate
    - Additionally, Cumulative Deficiency CPM cost allocation is based upon contribution to annual peak load and is not based on monthly load like CRRs are
      - Therefore, load migration in any month that is different than that already forecast would need to be related to the RA peak load month
        - Such a process will likely require coordination with the CEC