# Stakeholder Comments

# Commitment Cost Enhancements Revised Straw Proposal Issued June 10, 2014

| Submitted by | Company | Date Submitted |
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| Wei Zhou – (626)302-3273 | Southern California Edison (SCE) | 7/1/2014 |

SCE thanks the California Independent System Operator (CAISO) for the opportunity to comment on the Commitment Cost Enhancements Revised Straw Proposal (the Proposal)[1]. One major change in the Proposal is that the CAISO proposes to apply an opportunity cost methodology to use-limited resources (ULRs) to address one of the key issues[2] associated with the proposed elimination of the Registered Cost Option. While SCE appreciates the CAISO's effort in responding to market participants' concerns, SCE believes that the opportunity cost methodology must be carefully implemented to avoid potential problems. Some of the potential issues are described herein.

To allow sufficient time to test the performance of the opportunity cost model and address policy questions regarding the opportunity cost adder, the CAISO should consider phasing this initiative and implement only the elements that are absolutely necessary for this winter (Winter 2014-2015). Considering that severe gas price excursions are likely to occur infrequently (for example, the excursions only occurred on two days in the past year and may not happen at all this year), the measures described in the Tariff Waiver[3] seem appropriate to address those types of situations. The proposed elimination of the Registered Cost Option and the proposed 125% Proxy Cost cap are more dramatic changes and, therefore, should be considered

[1] CAISO Revised Straw Proposal on Commitment Cost Enhancements: http://www.caiso.com/Documents/Revisedstrawproposal_CommitmentCostEnhancements_061014.pdf

[2] For example, for resources that are not natural gas-fired, the Registered Cost Option can be a more effective method for representing operational and contractual costs. The Registered Cost Option also provides means to manage the opportunity costs associated with Use-Limited Resources. See SCE's previous comments (http://www.caiso.com/Documents/SCEComments-IssuePaper_StrawProposal.pdf) for details.

[3] 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

after the opportunity cost calculation model is fully developed and ready for production use, perhaps by the following winter (Winter 2015-2016). In the interim, the CAISO should run the opportunity cost model as an advisory tool, work out the mechanics of information exchange with stakeholders, and share the calculated costs with market participants as optional parameters to include in submitted startup and minimum load costs under the Registered Cost Option. This will allow adequate time to calibrate and improve the model, ensure absolutely needed measures to be implemented for the coming winter, address issues with permits and contracts that may not fit within the current design on the opportunity cost model (and allow for modifications to the model if needed) and allow a smooth transition to the scheduled must-offer obligation timeline under the Reliability Services Initiative.

While SCE appreciates the information provided by the CAISO regarding the opportunity cost model, SCE believes there are important issues that must be resolved before the model is ready for production use. Below, SCE seeks clarity on some of those issues.

1. Does the Proposal create inconsistency issues with the current definition of what constitutes a ULR?

   As cited below, CAISO Tariff Appendix A defines a ULR as a resource that "is unable to operate continuously on a daily basis." In other words, if the resource can run for an entire calendar day, it is not a ULR, regardless of whether it has monthly and/or annual use limitations. The CAISO should clarify whether the Proposal, which is structured for resources with monthly and/or annual use limitations, is consistent with this definition. The CAISO should also clarify whether the current ULR definition should be changed to resolve the inconsistency.

   > **Tariff definition of Use-Limited Resource –**
   > A resource that, due to design considerations, environmental restrictions on operations, cyclical requirements, such as the need to recharge or refill, or other non-economic reasons, is unable to operate continuously on a daily basis, but is able to operate for a minimum set of consecutive Trading Hours each Trading Day.

2. How does the Proposal address annual use limitations? Does the CAISO plan to test the model for such limitations before implementing?

For resources with annual use limitations, opportunity costs should be calculated beyond a month. For example, suppose a resource has 20 starts available in a year and the simulation month is July – how many of those 20 starts should be allocated to July? Will the CAISO rely on market participants to provide this information? If so, what is the mechanism to ensure those estimates comport with the CAISO opportunity cost calculation methodology? Since this information is critical to ensure use limitations are not violated while concurrently maximizing the resource value, a mechanism to allocate annual use limitations on a monthly basis should be included, and adequately tested, before assessing the Proposal in its entirety.

3. What is the mechanism to ensure use limitations will not be violated under the Proposal?

   Without an appropriate mechanism, the Proposal may result in violations of resources' use limitations due to its potential inaccuracy in calculation. For example, given the dynamic nature of the CAISO market (or any market), the simulated real-time prices may be very different from actual market prices which may result an under-estimated opportunity cost adder, which can in turn result in violations of resource use limitations. This may also result a risk in breaching resource contracts in case where the contracts specify resources usage between two or multiple parties.

   The CAISO needs to clarify what will be the mechanism to ensure use limitations will not be violated under the Proposal.

4. How does the Proposal align with the must-offer-obligation element of the Reliability Services Initiative?

   The CAISO should clarify how market participants can manage the risk of potential use-limit violations for scenarios where the CAISO generates opportunity cost-derived bids in accordance with a must-offer obligation.

5. Is there a contingency plan if the opportunity cost calculation is not effective?

To the extent that the opportunity cost calculation methodology is not effective, will the CAISO consider alternatives, such as reverting to the Registered Cost Option?

6. How will use limitations of a rolling year, rather than a calendar year, be addressed under the Proposal?

   The CAISO should clarify how other types of opportunity cost may be treated under the Proposal. In addition, resources can be limited on both a calendar <u>and</u> rolling year basis. How will such opportunity costs be calculated?

7. Transparency regarding the opportunity cost calculation model.

   Since the CAISO proposes to calculate the opportunity cost, and to some degree, manage use-limited resources for market participants, the CAISO should clarify what information will be shared with market participants. For example, the CAISO should identify what specific information from the Master File and/or the ULR Use Plan will be used, simulated prices used in the calculation, the frequency of opportunity cost updates, as well as its plans to improve the model.

Finally, in response to questions listed in Section 6 of the Proposal, SCE agrees with the CAISO that it is not ideal to reimburse intra-day gas costs, as that would undermine efficient market dispatch and raise other issues. For example, how will intra-day gas costs be verified, as liquid intra-day gas price indices may not be available? There can also be instances when intra-day gas prices are lower than day-ahead prices. As CAISO stated, the proposed 125% Proxy Cost cap will provide flexibility to account for factors such as normal gas price volatility[4]. SCE suggests that the discussion on the intra-day gas costs should be linked to the effectiveness of the proposed 125% Proxy Cost cap, which can be evaluated when real-world data is available, should the CAISO Proposal be adopted.

[4] Page 7 of the Proposal.