Stakeholder Comments Template

Subject: Regional Resource Adequacy Initiative

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This template has been created for submission of stakeholder comments on the Draft Regional Framework Proposal for the Regional Resource Adequacy initiative that was posted on December 1, 2016. Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **January 11, 2017.**

Please provide feedback on the Regional RA Draft Regional Framework Proposal below.

The ISO is especially interested in receiving feedback that indicates if your organization supports particular aspects of the proposal. Alternatively, if your organization does not support particular aspects of the proposal, please indicate why your organization does not support those aspects.

SDG&E appreciates the opportunity to comment on the ISO's framework proposal for regional resource adequacy. SDG&E remains supportive of the idea to expand the resource adequacy program region wide as the ISO expands. However, the details of how the policy is ultimately implemented is a crucial part of initiative process and provides SDG&E with a thorough understanding of the implication of any additional costs to SDG&E's ratepayers. Therefore, SDG&E recommends the ISO to further consider SDG&E's concerns for its next proposal. SDG&E also believes that "finalizing" a framework in order to allow other Balancing Authority Areas ("BAA")s to consider joining the ISO is fine as long as the ISO is committed to continue working on implementation details during that time. SDG&E does not wish to see the policy rushed for implementation because the ISO didn't allow sufficient time to consider implementation challenges.

While the CAISO has provided some responses to SDG&E's previous comments, SDG&E still has concerns with portions of the framework which did not change. These include:

1. The timeline and correlation of the LSE submitted load forecasts to other forecasts used to determine other RA requirements. It is still unclear how the ISO will ensure the inputs used to develop the LSE submitted system forecast will be the same for both the Local area forecasts and the Flexible needs assessment

2. SDG&E recommends the ISO to begin a separate initiative to develop NQC methodology for variable resources.
3. SDG&E continues to support a forecast based methodology to calculate the MIC as the proposed framework mixes historical and forecast methodologies depending on when a transmission project is completed

SDG&E has five primary concerns with the ISO's current framework proposal that warrants further discussions

1. System-Wide Planning Reserve Margin Target,
2. CPM cost allocation for sub-regional or zonal events,
3. Requirements for RA Imports
4. Resource Substitutions and
5. External Resource Substitution for Internal Resources

System-Wide Planning Reserve Margin Target

SDG&E understands the ISO's desire for consistent levels of reliability across the expanded system. However, given the ISO's authority for CPM, RMR and Risk of Retirement, the ISO should allow the LRAs to set the relevant planning reserve margins for their jurisdictional LSEs. If there is a collective deficiency, the ISO can then backstop procure for capacity and allocate the appropriate costs to the LSEs which are below the ISO's default PRM. One of the benefits of expanding the ISO is to integrate the diversity of generation by region. The ISO should not supersede the LRA's decision to set a different PRM unless it impacts grid reliability. The ISO should not increase ratepayer costs unnecessarily. Instead, the ISO should actively provide guidance to ensure sufficient generation is built in the long term in the correct locations to have a reliable market. Second, LSEs ultimately will also have to comply with LRAs' requirements. Having different PRM requirements, for the jurisdictional LSEs within an LRA, compared to the ISO's default PRM will create confusion for LSEs and market participants.

SDG&E strongly recommends the ISO to reconsider its position and validate LSE RA plans against the LRAs' set PRMs first and then designate CPM capacity if there is a collective deficiency.

CPM Cost Allocation for Sub-Regional or Zonal events

SDG&E urges the ISO to consider allocating CPM costs based on the region where the event occurred in addition to its current cost allocation mechanism. If an exceptional dispatch CPM were designated in PAC-East while the rest of the ISO BAA did not have any issues, then the cost should be allocated only to the LSEs in PAC-East. Currently, the ISO allocates costs based on Local and System deficiencies. This additional requirement will enable CAISO to better identify those entities that should be allocated the costs related to the event. SDG&E recommends the ISO to also consider allocating costs based on regional deficiencies.

Requirements for RA Imports

SDG&E does not support the ISO's revised proposal to limit the portion of total system resource adequacy requirement that may be met with "short-term" capacity arrangements. The ISO's revised proposal seems to assume that if a LSE were to contract with a 3rd party, another LSE or energy supplier, then the 3rd party will automatically have secured the energy ahead of time. This type of capacity transaction does not count towards the limit. However, if the LSE were to self-supply, then the ISO assumes that the energy will be procured in the short term. This capacity will count towards the limit. The revised proposal remains ambiguous on what types of capacity only transactions will be considered under the short-term. SDG&E believes the ISO should incentivize behavior of all suppliers rather than discriminate against LSE who self-supply. In the bilateral capacity market, the transacting parties rely on the must offer obligations to ensure bids are submitted into the ISO's energy markets.

As SDG&E stated in its prior comments, the ISO's proposal and now, revised proposal does not resolve any of the concerns that DMM has with how intertie capacity is bid into the ISO markets. Primarily, the ISO is not creating a must offer obligation for intertie capacity to bid into the real-time market. SDG&E believes that if a real-time must offer obligation were created, this would incent behavior of all import suppliers to ensure the energy is deliverable to the ISO even in real time or face financial penalties that currently already exist.

SDG&E does not support the ISO's three proposed modifications for short-term, non-resource specific imports. First, the ISO's proposed cost allocation mechanism would only apply to capacity designated as "short-term" contracts. The ISO should not assume or prejudge the inability to deliver energy to be from a LSE's desire to skirt the capacity commitments. Rather, the inability to delivery energy should be treated in the same manner as any other resource on forced outage. If the ISO wishes to allocate CPM costs based on cost causation principles, then the ISO should apply the same reasoning to all other generators that could not provide energy in real time. Singling out specific capacity contracts to allocate certain costs creates inconsistent treatment for a standard capacity product.[1]
Second, SDG&E does not support the ISO's proposal for enhanced non-performance penalties during system emergencies or significant events. The ISO existing penalty is set at 60 percent of the CPM soft offer cap for all capacity products. Instead of changing the per-MW price, the ISO should require a real-time must offer obligation and change the way the availability is measured for intertie capacity. This would increase incentive without changing the price specific toward one type of capacity contract.

Third, SDG&E does not support the ISO's proposal to review contract documents. CAISO's proposal is inconsistent with the approach it has advocated in other initiatives.[2] The ISO has consistently stated that it does not review contracts between parties because it does not want to

[1] The ISO filed Tariff with FERC back in 2009 to develop a standard capacity product where all capacity products have the same availability standard metrics and established must offer obligations. Adjusting the cost allocation of CPM specifically for this one of capacity contract would make the capacity products non-standard because the LSE would take on the obligation of CPM risk if the supplier did not deliver the energy whereas the LSE would not take on the cost if the supplier of a "non-short term" capacity contract does not deliver the energy.
[2] Commitment Cost Enhancements Phase 2 and Commitment Cost Enhancements Phase 3

interpret contractual language. SDG&E agrees and believes that the ISO should continue to refrain from interpreting contract language unless the ISO adopts the same viewpoint for all other initiatives. The ISO notes that an after the fact review would provide an additional layer of protection. SDG&E is unsure how the review would provide protection for other LSEs.

The ISO should provide information on how many MWs of “short-term” capacity has previously shown to the ISO. This would help provide the magnitude of a problem and how much effort should be spent on this. SDG&E recommends that the ISO provide data on how many MWs of RA were committed from non-resource specific intertie IDs and a distribution of the prices bid into the ISO markets. In addition, the ISO should further break down the data and show how much of the awarded energy was not delivered in real-time.

SDG&E recommends that the ISO to reconsider creating a real-time must offer obligation and changing the RAAIM assessment for all intertie capacity. A real-time must offer obligation would ensure that all capacity products have the same performance obligations.

Resource Substitution

SDG&E has previously suggested in other initiatives[3] that the ISO should reassess the need to provide capacity substitutions for forced outages similar to the planned outage substitution process. Although, SDG&E supports the concept of the ISO proposal, SDG&E does not believe that the proposal offers an efficient means for SCs to acquire the substitute capacity by the relevant deadline. Notifying the SC without a procurement mechanism slightly lowers the penalties. On the opposite side, each non-exempted RAAIM hour incrementally increases the non-availability percentage because there are less total available assessment hours. For example, 10 hour of 100 hours is only 10 percent while 10 hour of 80 hours, because 20 hours were exempted, is 12.5 percent. Therefore, substitution becomes even more crucial as the pool of hours decrease due to exemptions.

In the bilateral market, counterparties must issue solicitations or call various counterparties and negotiate contracts. As such the ISO needs to develop a process to allow market participants to efficiently transact for substitute capacity on a daily basis. This process can occur on a day-ahead or even real-time basis and after a scheduling coordinate wishes to not self-supply the substitute capacity. This would also ensure that the ISO can optimize for the capacity from the right resources.

SDG&E believes there would be sufficient market participant interest in discussing this proposed process and SDG&E would encourage the ISO to discuss this topic in its next version of the proposal. SDG&E believes that without an efficient process similar to the ISO energy markets, the ISO proposal will not resolve the RAAIM substitution concerns for most generation owners and only minimizes the penalties for LSEs that also own surplus generation.

External Resource Substitution for Internal Resources

[3] Outage management system replacement and Reliability Services Initiative Phase 1

SDG&E is extremely confused with the relaxation of the second condition as previously described by the ISO. On the one hand, the ISO wants firm energy deliveries and is willing to charge CPM costs to those LSEs whose capacity contracts fail to deliver energy. Here, the ISO is going to allow external non-resource specific resources to provide the substitute capacity for internal resources and not require those resources to have the same must offer as the original resource on forced outage. These two positions seem to be polar opposites and provide inconsistent signals to stakeholders.

Not having the same amount of expected megawatt hours from the substitute resource could actually create capacity shortfalls. For example, if the ISO expected 2400MWh of energy bids from a resource and the resource went on forced outage and the ISO receives only 800MWh of bids from an external resource. This deficit would have to be made up with RUC or ED CPM and those costs may be charged to all LSEs because it's a system deficiency. This relaxation should not be allowed. Also, given the ability for a Local resource to be shown as a System only resource, this exception would cause further concern for reliability.

SDG&E believes the ISO should create a standard must offer obligations for all capacity that can be easily understood by market participants. As an example, the ISO recently implemented Reliability Services Initiative 1A where it no longer allows intertie contracts increments of less than 24 hours to qualify as RA. It has become physically impossible to show such contracts for less than 24 hours in each day. Therefore, the minimum must offer for intertie capacity is for a minimum of 1 day. This is on page 33 of the reliability requirements business practice manual. It is unclear to SDG&E, how an intertie contract for less than 24 hours affects the substitution process as stated by the ISO. Within the ISO RA tool, all day-ahead substitutions last 24 hours while real-time are for at a minimum the balance of the day plus the next calendar day. This is stated on page 124 of the reliability requirements business practice manual. These requirements contradict the CAISO's justification for removing the second condition. SDG&E seeks clarification on if the business practice manual is inaccurately interpreting the ISO Tariff.

SDG&E does agree in principle that external resources should be allowed to provide substitute capacity under the right conditions. SDG&E believes, as the ISO did previously, (1) that MIC allocation should be required, (2) substitute capacity should have the same must offer obligation and (3) external resources cannot substitute for Local capacity.

Other Comments

SDG&E recommends the ISO to identify which portions of the framework would be suitable as enhancements to the current RA program without need for expansion. Such enhancements should be included in the regional adequacy enhancements initiative set to begin for 2017 as noted in the stakeholder catalog.