Stakeholder Comments

SDG&E's Comments on the CAISO's
Commitment Cost Enhancements Phase 3
Revised Straw Proposal

November 3, 2015

Submitted By	Company or Entity	Date Submitted
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As a follow-up to the discussion at the November 3, 2015 stakeholder conference call on the revised straw proposal for Commitment Cost Enhancements Phase 3, the CAISO is requesting written comments on the revised proposal on November 23, 2015.

In response to CAISO's request, SDG&E offers the following comments for CAISO's consideration.

1. **Reliability Services – Phase 2 RAAIM conflict**

In RSI 2, Reliability Services hase 2 the CAISO states that when an annual use limit is reached the unit will then be subject to RAAIM Resource Adequacy Availability Incentive Mechanism. This is a fundamental conflict with CCE3 Commitment Cost Enhancements Phase 3. The CAISO is responsible for determining and updating the opportunity cost adders to avoid reaching a use-limitation. It does not make sense that if the CAISO gets the opportunity cost adder wrong and a use-limitation is reached the resource then becomes subject to RAAIM. When a CAISO monitored use-limitation is reached, due to the CAISO's own actions, the resource should not be subject to RAAIM. CCE3 and RSI 2 need to correct this problem or CCE3 will have to fundamentally change the role of the resource in determining the opportunity cost adder. The resource must have the ability to mitigate the RAAIM risk by selecting an appropriate opportunity cost adder. SDG&E can no longer support the CAISO's proposed opportunity cost adder construct unless the RAAIM exposure is eliminated when a monitored use-limitation is reached.

SDG&E is also concerned that the lack of a FERC-approved revised definition of Use-Limited Resource will cause problems with the early spring 2016 implementation of the 1st phase of RSI. Use-limited plans and obligations are very "messy" at best and should not be further complicated with uncertainty regarding what is or will be a Use-Limited Resource. SDG&E does not want to waste time working on use-limited plans that may have to be changed depending on what the final FERC approved definition is. The CAISO is proceeding like FERC will support a definition basically identical to one FERC just rejected. The CAISO must structure early 2016 RAAIM implementation to minimize any impact if FERC approves anything different in CCE 3 than the CAISO is expecting.

2. **Eliminating the term, "non-economic reasons," from Use-Limited Resource definition does not comply with the FERC Order**

As explained in more detail below, the FERC directed the CAISO to explain the term "non-economic reasons." CAISO responds by proposing to eliminate "non-economic reasons" from the Use-Limited Resource definition. That response is unacceptable because it is a substantial change and has a major impact on contractual agreements that have been reviewed and approved by the CPUC. "Non- economic reasons" encompass the complex CPUC regulatory process, primarily the Long Term Planning Process ("LTPP") resulting in contracts with various use limitations that balance a wide range of state statutes, regulations and goals that are not cost based (loading order, RPS, GHG, *etc*.).

3. **CAISO's Revised Proposal Fails to define "economic or non-economic limit" as required by FERC**

CAISO has yet to address the clarification requested by FERC in paragraph 35 of its Order on CCE2:

> The Commission notes that there is a lack of clarity as to what capacity will be deemed use-limited under the proposed new definition. For example, as SDG&E points out,[53] the proposed tariff revisions do not define an economic or non-economic limit, so it is difficult for the Commission, or any market participant, to determine in which category a resource would fall.

The term "non-economic" is contained in the current definition and the CAISO cannot avoid discussing it by simply removing it from the new proposed definition. The impact of removing it must be addressed.

4. **As directed by the FERC Order, CAISO must address the effect of economic limitations on reliability**

FERC states that "CAISO has failed to discuss in sufficient detail the interaction of contractual limitations with economic and non-economic limitations, and has not supported its position that allowing economic limitations could unnecessarily reduce CAISO's flexibility in ensuring reliability."

CAISO's revised proposal fails to discuss in sufficient detail the interaction of contractual limitations with economic and non-economic limitations. Moreover CAISO's revised proposal fails to support CAISO's position that allowing economic limitations could unnecessarily reduce

CAISO's flexibility in ensuring reliability. The FERC expressly called for this explanation in the Order.

As SDG&E has stated several times, both in the stakeholder process and in its formal comments at the FERC, all the limitations contained in SDG&E's contracts are sufficient to maintain reliability if the CAISO uses them mainly (but not solely) for reliability as the CPUC intended (and with the CAISO a party to the contract approval proceedings). If the CAISO ignores the contractual limitations and uses the resources mainly for market optimization the contractual limitations have and are expected to continue to be reached which does not have a positive impact on reliability.

5. **As directed by the FERC Order, CAISO must address contract limitations approved by a regulatory authority.**

CAISO's revised proposal fails to explain why CAISO will only accept certain regulatory approved contracts (like demand response) with operational limitations as acceptable use-limits. As the CAISO points out on slide 9 of its November 9, 2015 presentation on its Commitment Cost Enhancements phase 3 Revised Proposal, FERC found that there was a 'lack of discussion and supporting justification for the ISO's position (slide 9, point 2). SDG&E believes there is still a lack of discussion. The CAISO makes the point in the stakeholder presentation of the Revised Straw Proposal that honoring contract limitations would "provide incentive to include these types of restrictions in contracts, and, therefore influence resources commitment costs and/or DEB." (slide 9 point 3).

No party during the CCE2 or CCE3 process has advocated for all contract limitations to be honored as acceptable use limitations. SDG&E has, however, commented extensively that contract limits approved through a regulatory process; procurement through the LTPP process must be honored. As required by FERC's order, CAISO must explain why some regulatory contracts, such as demand response contracts, are eligible for use-limited status and other regulatory contracts, *e.g.*, LTTP agreements, are not.

6. **CAISO must address the requirements set forth in FERC Order before resubmitting its proposal for FERC review.**

In Paragraph 39 of the FERC Order on CCE Phase 2, the FERC writes "… [T]he Commission rejects the revisions related to use-limited resources, without prejudice to CAISO submitting a new section 205 filing that provides a comprehensive explanation of what it is proposing to change, how the changes impact the various categories of market participants, and the impact on customers." The revised proposal fails to provide the comprehensive explanation required in the order on CCE Phase 2. SDG&E requests CAISO to provide the comprehensive analysis that the FERC Order required regarding:

- What is the CAISO proposing to change?

- How do the changes impact the various categories of market participants?
- What is the impact on customers?

7. **CAISO must clarify further what it means by "environmental restrictions."**

The CAISO has added detail to the new revised straw proposal as to what constitutes, in the CAISO's mind, use-limited. As found in the new definition, 'acceptable environmental restrictions are those that are imposed by regulatory bodies, legislation, or courts.' CAISO goes on to explain the most obvious of these limitations- permits issued that limit a resource due to emissions or water use.

To be clear, it is SDG&E's position that contracts approved by the CPUC *via* the LTPP also fall within this category. Pursuant to the CPUC's Order Instituting Rulemaking (OIR) on the LTPP process 'all resource and procurement planning in this proceeding will be done in the context of the Energy Action Plan II (EAP II), the Commission's Loading Order policies which prioritize certain preferred resources, and other state energy policies, such as AB 32 greenhouse gas, once-through cooling policies and AB 327.'

SDG&E requests clarification that the CAISO also considers that procurement under the LTPP process would also constitute an environmental restriction.

8. **CAISO must clarify the impact of the proposed new definition on resources previously designated use-limited resources**

SDG&E is not clear on all the ramifications of the CAISO's new proposed use-limited resource definition on resources that were previously designated use-limited resources. Unintended consequences may arise for some resources like demand response or storage. The CAISO should include a full discussion about any possible impacts on resources that it previously designated as use-limited resources.