Stakeholder Comments

Commitment Cost Enhancements Phase 2, Draft Final Proposal Issued February 9, 2015

Submitted by	Company	Date Submitted
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San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to comment on the February 9, 2015 Commitment Cost Enhancements Phase 2 Draft Final Proposal (Proposal) prepared by the California Independent System Operator (CAISO). SDG&E's comments appear below.

The CAISO Must Revisit the Definition of "Use-Limited Resource" in a Subsequent Phase or Separate Stakeholder Initiative.

In its January 13, 2015 comments on the CAISO's December 22, 2014 "Revised Straw Proposal" in this stakeholder proceeding, SDG&E explained that "[t]he CAISO is changing the definition of use-limited capacity" and that "the tremendous increase in variable energy resources (VERs) has placed additional new, burdens on [combustion turbines (CTs)]," and as a consequence, these factors are creating great concern for start limitations that were included in certain of its PPAs. SDG&E's comments further noted that "[i]n the past, a couple hundred starts a year were generally thought to be more than adequate" to cover then-known expected uses of the CTs. These PPAs were negotiated based on then-extant market conditions and objectives, as well as reliability concerns. Further, these contracts were negotiated with ratepayer interests in mind – namely, keeping costs down by not building in even greater operational flexibility that was not indicated or needed at the time the PPAs were executed. SDG&E requested that the CAISO's process take this specific concern into consideration in this stakeholder proceeding.

SDG&E notes that several other stakeholders' January 13, 2015 comments indicated the same or very similar concerns. SDG&E surmises that even greater stakeholder interest in this issue would be expressed if this topic were specifically identified by the CAISO as part of this stakeholder process.

However, the CAISO's February 9, 2015 "final draft proposal" failed to give further consideration to this issue, stating that "the ISO reiterates that the tariff only recognizes non-economic use limitations. This would mean that contracts signed to economically limit a resource's participation in the ISO markets is not a recognized use limitation. This is a long-standing rule in the ISO tariff and has not been changed in this initiative." (Page 3). Similarly, the final draft proposal states that "[t]he limitations accepted by the ISO must be statutory, regulatory, based on an ordinance, due to a court order or operational in nature. They cannot be economic or contractual." (Page 9).

SDG&E understands that the CAISO's sole support for its position is the tariff's definition of "use-limited resource," which provides in pertinent part: "A resource that, due to design considerations, environmental restrictions on operations, cyclical requirements, such as the need to recharge or refit, ***or other non-economic reasons,*** is unable to operate continuously." (emphasis added).

However, SDG&E respectfully points out that the term "contract" is conspicuously absent from the definition. Thus, the CAISO's view that the limitations "cannot be economic ***or contractual***" is simply not supported by the tariff definition on which the CAISO relies. The term "contractual" is clearly not synonymous with "economic." The tariff contains no further elucidation of what "non-economic reasons" include and do not include.

SDG&E does not agree with the position that all "contracts" or "contract terms" necessarily are "economic" and therefore would disqualify a resource from the definition of a "use-limited resource." A contract may, in fact, reflect other than "economic" considerations. For example, contract start limitations and other use limitations are generally tied to a unit's expected maintenance cycles such that overuse of the unit (by, for example, exceeding the number of annual starts) would speed up the a unit's expected maintenance cycles, creating maintenance outages that weren't contemplated, and thereby affecting the unit's availability to both the IOU and to the CAISO for reliability. In any event, SDG&E submits that the CAISO has interpreted or applied the existing definition of "use-limited resource" so as to exclude any limitation that happens to be reflected in a "contract," even if that contract term was appropriate and consistent with the tariff language when the contract was adopted.

If the CAISO intends to view all contract terms that reflect limitations as "invalid" or "not to be recognized," then SDG&E respectfully renews its request that the definition of "use-limited resources" be specifically considered in a subsequent stakeholder process. All market participants who would be affected by the CAISO's interpretation of the tariff's definition should be afforded a comment opportunity. Moreover, it appears to SDG&E that the recent, burgeoning use of VERs is alone sufficient to warrant that the definition on which the CAISO relies be revisited in a stakeholder process, aside from the apparent difference in interpretation of the "use-limited resource" definition.

Finally, SDG&E notes that its final draft proposal states that "the ISO proposes to address the use of the daily start limit field more closely under the *Bidding Rules Enhancements Initiatives.*" (Page 30). SDG&E agrees. Regardless of the proceeding, SDG&E respectfully urges the CAISO not to view this start limitations or "use-limited resource" definition as resolved unless and until it is specifically addressed by stakeholders in a future process. SDG&E finds it imperative for the CAISO and market participants to have a clear understanding of the key definitions in CAISO tariff whose meaning may have changed due to other significant events and circumstances in the market. SDG&E is encouraged by the CAISO's comments on Page 30 and will work with the CAISO and stakeholders to find a workable solution to this important issue raised by SDG&E and others.

Transition costs for natural gas-fired resources (8.2.3 Page 22)

SDG&E appreciates the CAISO's addition of examples (Pages 22-26) to illustrate the proposed transition cost methodology, especially as it pertains to natural gas-fired resources. SDG&E supports the updated methodology finding it more accurate than the current method to capture costs incurred during plant transitions.

New Master File Field to Streamline Proxy Percent Selection (Page 22)

CCE Phase 2 states (Page 22) a scheduling coordinator (SC) may bid 'up to 125 percent of the start-up or transition cost on a daily basis for each configuration' under the proxy cost option. For operation ease for both the CAISO and SCs, SDG&E recommends the CAISO implement two fields in the master file for the SC to enter the percent of start-up cost and the percent of transition cost the SC would like to bid for a given unit. The CAISO then generates the start-up and transition costs, including the percentage, and uses these numbers for market optimization and unit commitment. This will mitigate any issues that may arise through the potential for SCs to calculate a cost inconsistent from the CAISO. Since the CAISO currently generates costs to cross-check SC submissions, this isn't additional burden and would add to transparency of cost calculations. Also, transition costs are not currently a bid-able field for SCs. With the necessary changes to allow SCs to include a percent, up to 125 percent, with transition costs, SDG&E believes the best most accurate strategy is for SCs to include a percentage in the master file for CAISO to include in the calculation as opposed to having SCs internally calculate and submit costs to the CAISO.