

Comments of PG&E on the CAISO's Standard Resource Adequacy Capacity Product Second Draft Final Proposal

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I. Introduction

PG&E appreciates the efforts of the CAISO to craft a Standard Capacity Product that will enhance the liquidity of the bilateral resource adequacy (RA) market and facilitate RA compliance. There have been significant improvements in each iteration of the CAISO's proposal. Nevertheless, the proposal still fails to address several major concerns that PG&E has articulated previously. With the exception of its treatment of transition issues, the failure of the CAISO to incorporate PG&E's recommendations results in modifications to the RA program that while, perhaps less than ideal, are unlikely to make the RA program work less well than it does now. With respect to transition issues, the CAISO's proposal would disrupt a significant number of existing commercial arrangements and impose significant costs on PG&E and its counter-parties. PG&E restates its concerns about transition issues and other aspects of the CAISO's SCP proposal below.

II. Transition issues

The CAISO's current proposal with respect to transition issues is significantly improved from previous versions in that it no longer excludes contracts for which the contracting parties fail to "certify that the availability standards and incentives in their contracts are at least equal to the requirements set forth in the SCP tariff language"¹ from grandfathering. In addition, the CAISO's most recent draft notes that "Novations will be accepted as long as they do not change the initial term of the contract or the amount of MW of RA capacity."² This modification addresses PG&E's concerns about whether the DWR contracts would continue to count for RA. Unfortunately, the CAISO proposal still excludes "renewals and evergreen type extensions"³ from grandfathering. PG&E has many QF contracts and at least one seasonal exchange that are evergreen in the sense that they do not terminate absent counter-party action. Restructuring evergreen contracts to conform to SCP would entail significant costs. Consequently, PG&E proposes that the CAISO grandfather all contracts signed before January 1, 2009.

III. Scheduled outages

¹ Draft Final Proposal, p. 27.

² Second Draft Final Proposal, p. 33.

³ Second Draft Final Proposal, p. 32.

In section 3, of the Second Draft Final Proposal, the CAISO notes that there was not consensus in the stakeholder process that “The LSE’s responsibility should end with the submission of their RA plans.”⁴ PG&E believes that this simplification of compliance is a critical aspect of any SCP proposal and that the CAISO cannot meet its goal of establishing a product that is “fungible and can be easily traded,”⁵ without this aspect. As long as the behavior of a specific counterparty can affect an LSE’s compliance within a compliance period, then the SCP is not truly standard. RA MW from different suppliers will trade at potentially different prices based on expectations about counterparty performance.

The treatment of scheduled outages in the RA counting rules seems to be the main obstacle to allowing an LSE’s compliance obligation “to end with the submission of their RA plans.” In R.08-01-025, the CPUC’s Energy Division recently proposed “to remove the Scheduled Outage counting rules adopted in Section 3.1 of D.06-07-031, thereby removing the need for LSEs to be involved in the scheduling of scheduled outages of RA generators. Beginning in compliance year 2010, units on a CAISO-approved scheduled outage would be eligible to count for RA with no derate or replacement obligation due to scheduled outage.”⁶ PG&E proposes that the CAISO incorporate CPUC Energy Division’s proposal into the SCP proposal. With the elimination of the scheduled outage counting rules, PG&E further proposes that the CAISO modify the SCP proposal so that an LSE’s compliance obligation ends with the submission of SCP tags or their analogs.

As noted in its February 27 reply comments in R.08-01-025, PG&E recognizes that the elimination of the scheduled outage counting convention would require closer coordination between suppliers and the CAISO, e.g., sellers of RA for a month would bear the risk that the CAISO might deny scheduled outages of their RA resources within the month. Conceivably, a resource would be required to take a forced outage to perform routine maintenance, and, if it were subject to SCP, incur availability penalties. Similarly, a resource that expects to take a scheduled outage in a month might avoid selling RA for that month if it expects the CAISO to deny scheduled outages for RA resources in that month. Essentially, the scheduled outage counting conventions would be replaced by subjective determinations by the CAISO about when RA resources would be allowed to take scheduled outages.

Another way of addressing the same issue short of eliminating the scheduled outage counting convention is to place the obligation to replace capacity that is scheduled out on the RA seller rather than the buyer. It is unclear whether this change would require a change to SCP and/or the RA rules.

IV. Unit substitution

⁴ Second Draft Final Proposal, p. 5.

⁵ Second Draft Final Proposal, p. 9.

⁶ R.08-01-025, Phase 2—Energy Division Staff Proposals, Proposal 5, filed January 9, 2009.

PG&E continues to object to the CAISO's proposal to retain discretion over whether a "substitute resource is a resource which appears to be capable of providing system reliability benefits equivalent to the system reliability benefits provided by the original RA resource"⁷ for the purpose of local RA compliance. If the CAISO needs are more granular than the Local Capacity Requirements (LCRs), then the procurement obligation should be equivalently granular. In the event that the CAISO really needs resources at a specific bus, for example, competitive procurement is unlikely to be workable and it may be more appropriate to procure the required resources through means other than RA purchases, such as Reliability Must Run (RMR) contracts or other similar mechanisms.

⁷ Second Draft Final Proposal, p. 31.