Southern California Edison
Stakeholder Comments

FERC Order 764 Market Changes
Intermittent Resource Protective Measures
Draft Final Proposal
issued August 15, 2013

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The following are Southern California Edison's (SCE) comments on the California Independent System Operator's (CAISO) Draft Final Proposal for Intermittent Resource Protective Measures in the FERC Order 764 Market Changes.[1] SCE appreciates the opportunity to provide comments and participate in the stakeholder process.

SCE opposes the following elements of the current proposal:

- Cost allocation to all Scheduling Coordinators (SC) with net deviations
- Opening the protective measures to any resources other than those with a Load Serving Entity (LSE) contract
- Opening the protective measures to resources not already certified as Participating Intermittent Resource (PIR) and participating in PIRP.

SCE supports the following elements of the current proposal:

- Setting and maintaining a firm expiration date for the Participating Intermittent Resource Program (PIRP) Protective Measures
- Limiting the program to resources physically unable to follow CAISO dispatches and with a financial exposure to imbalances
- Allowing eligible resources to either fully opt-in or fully opt-out of protective measures, and then settling with them accordingly

[1] CAISO Draft Final Proposal posted on August 15, 2013. http://www.caiso.com/Documents/DraftFinalProposal-FERCOrder764MarketChanges-IntermittentResourceProtectiveMeasures.pdf

1) CAISO should allocate Protective Measures costs only to the participating SCs

The current proposal to spread the netting costs to all negative real-time deviations provides improper incentives for LSEs holding contracts with Protective Measures eligible resources. If an LSE amends and/or clarifies all of their contracts so that the affected intermittent resources in their portfolio no longer require these measures, their customers should not be exposed to Protective Measures costs caused by other market participants.

Allocating the Protective Measures netting costs only to participating SCs[2] is also the preferred approach if the CAISO insists, despite SCE's objections, on opening the Protective Measures to resources without contracts. This construct would provide proper incentives to LSEs to resolve any PIRP related issues with their contracted resources, as doing so would exempt them from Protective Measures netting costs or revenues. If an LSE doesn't resolve these contract issues and their resources opt-in for Protective Measures, they would be sharing these costs with the other SCs availing of the program.

It is SCE's intent to resolve any PIRP related contract issues, and have all of its resources fully participate in the 15 and 5 minute Real-Time markets, without the need for Protective Measures. SCE simply does not want its customers to have the financial exposure to imbalance charges (or revenues) caused by other market participants.

2) CAISO should limit the protective measures only to resources with an LSE contract

During the stakeholder process, the issue of PIRP grandfathering was always discussed within the existing contract framework. The CAISO itself proposed in the *FERC Order 764 Compliance Addendum to Draft Final Proposal* that the resources need to meet the specified criteria including that "the PIRP resource bears the imbalance market costs under its existing PPA" (emphasis added).[3]

Resources without a contract are already exposed to market risks and uncertainties and have had plenty of time to adjust to upcoming market changes. It is worth noting that changes to PIRP were contemplated since three years ago, in the Renewable Integration

[2] Note: participating SCs would include LSEs with participating resources, as well as any participating resources without a contract, scheduling their own output.

[3] CAISO Draft Final Proposal – Addendum posted on April 24, 2013, page 24. http://www.caiso.com/Documents/Addendum-DraftFinalProposal-FERC_Order764MarketChanges.pdf

Market Product Review (RIMPR) Phase I.[4] In addition, these are likely fully depreciated resources with over 20 years of commercial operation. As such, they have had ample indication of the upcoming market shift and have had the opportunity to prepare for new conditions by investing in their resource and/or contracting to mitigate any imbalance risk.

3) CAISO should limit the Protective Measures only to current PIRs

The idea of Protective Measures was conceived as a temporary tool to protect the current contracts, as discussed above. If a resource is not a PIR today, then either they are ineligible due to their contract terms, or they've simply chosen to forgo PIRP. Either way, the objective here is to protect the terms and conditions of current contracts from significant and unanticipated changes in market design, and it is not to protect resources from such changes.

SCE can support extending this benefit to resources that: meet the discussed technology criteria, have an exposure to real-time imbalances, have a contract with an LSE, and qualify as a PIR prior to the FERC approval of the Order 764 Market Design Changes. That should be the final deadline for qualifying for Protective Measures.

4) CAISO should set and maintain a firm expiration date for the protective measures

SCE supports CAISO's proposal to set a firm expiration date for the Protective Measures. As argued in previous comments[5], SCE proposes that Protective Measures be limited to one year from the implementation of the Order 764 Market Design Changes. SCE is willing to compromise and support the three year duration of Protective Measures if they are limited to resources already in PIRP with existing contracts, as described in Sections 2 and 3 above.

5) SCE supports limiting the scope to resources physically unable to follow dispatches

SCE opposes extending the Protective Measures to resources without a contract, as described in Section 2. However, if CAISO extends the Protective Measures to resources without a contract, then SCE supports limiting the scope to units that are physically unable to follow CAISO dispatches.

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[4] CAISO Presentation from July 16, 2010, page 26. http://www.caiso.com/Documents/Presentation-RenewablesIntegrationMarketandProductReviewStaleholderMeeting16-Jul-2010.pdf

[5] SCE comments filed August 9, 2013.

6) SCE supports allowing eligible PIRs to either fully opt-in or fully opt-out of Protective Measures within 30 days of effective date of market design changes

SCE strongly supports the CAISO proposal to allow eligible resources to either fully opt-in, and receive Protective Measures for the entire period of eligibility, or opt-out by not requesting protective measures and instead receive the full benefits of 15-minute scheduling. SCE also supports the proposed one-time 30-day opt-in window as it will allow CAISO to plan for an ordinary PIRP transition and avoid unnecessary implementation uncertainties.

As explained by the CAISO in its proposal, and echoed in previous SCE comments, the new market structure significantly reduces the intermittent resources' exposure to real-time imbalances, thereby eliminating the need for protection against hourly imbalance charges offered under PIRP.[6] In fact, for most intermittent resources, the new market structure is expected to provide higher real-time revenues than the current structure with PIRP benefits.[7]

For the resources that choose to opt-in to Protective Measures, the settlements should fully reflect this choice. By opting in, they should forgo any 15-minute scheduling benefits as proposed by the CAISO. The grandfathering should not make anyone better off than they are in the market structure being grandfathered.

It is imperative that the CAISO maintains this approach and avoids providing a risk free option to resources where they could elect to receive Protective Measures, and then opt-out as soon as they realize that participating in the new 15-minute market is a superior option.

[6] CAISO Draft Final Proposal, Page 3
[7] CAISO Draft Final Proposal, Page 5, Figure 1