

Stakeholder Comments

Renewable Integration: Market Vision & Roadmap Second Revised Straw Proposal

Submitted by	Company	Date Submitted
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SCE appreciates the opportunity to comment on the Second Revised Renewable Market Vision and Roadmap (RIMVR), released on October 11th, 2011. The California Independent System Operator (CAISO) has moved expeditiously to solidify this RIMVR so that the important design work on critical market enhancements can begin forthwith. SCE supports the current proposal but sees it as incomplete without the addition of several critical issues.

SCE looks forward to continued collaboration with the CAISO on the important market design enhancements discussed in the Renewables Integration Market Product Review Phase 2 (RIMPR 2).

I. Cost allocation for Ancillary Services, RUC, and dynamic transfers needs to be reconfigured based on cost-causation principles.

Ancillary Services, RUC, and dynamic transfers are three CAISO structures that will be leveraged to integrate energy from Variable Energy Resources (VERs). Ancillary Services, particularly regulation, will be dispatched to balance uncertain and variable production from VERs. RUC will be used to ensure sufficient regional generation if VERs underperform. In line with cost-causation principles, costs for such services should flow to market participants creating the need for integrating services. The CAISO needs to change cost-allocation for these integrating services. SCE is particularly concerned with changing the allocation of costs for Regulation. Until new products are implemented several years from now, SCE views it likely that Regulation will play an increasing role in integrating VERs. Thus, the CAISO should immediately address cost allocation for Regulation.

SCE and others have already made the case that the application of cost-causation principles drives market efficiency and prudent long-term planning, leading the CAISO to establish cost-causation as a guiding principle for RIMPR 2.¹ SCE applauds the adoption of this guiding principle, but there are *no* market benefits until the principle is applied.

¹http://www.caiso.com/Documents/SCEComments_RewewablesIntegrationMarketAndProductReviewPhase2StrawProposal.pdf, pp. 1-2.

To apply the cost-causation principle, the CAISO should decompose and allocate the costs of integrating services to the Scheduling Coordinator of VERs, conventional generation, or load, based on logical criteria reflecting causation (e.g., expected volatility and schedule deviations). The CAISO's 33% study includes estimates on the incremental regulation capacity required for integrating VERs. At the very minimum – and with minimal effort – these percentages can be adapted in the interim for use in allocating costs for Ancillary Services. More sophisticated methods can then be gauged as permanent cost allocation systems.² Given the robust scope of RIMPR 2, SCE recommends that the CAISO consider a relatively simple cost-allocation structure as an immediate short term enhancement and develop more robust allocation redesigns for Regulation and the Flexi-ramp Product for mid-term implementation. Moreover, the recent Federal Energy Regulatory Commission (FERC) Order 755 on Frequency Regulation provides a natural forum to implement proper cost allocation of Regulation.

SCE's desire for proper cost allocation is based on the fact that efficient markets provide incentives to improve performance or lower costs, e.g. through efficient operations and bidding. This view is not designed to harm current market participants but rather to promote long-term success of a CAISO market rich with VERCs and to protect California customers from inappropriate costs. For example, if a utility in Utah built a solar facility in Southern California, the Scheduling Coordinator of that facility should directly receive its share of integration costs. This way the beneficiaries in Utah, and not CAISO customers, pay the costs of integrating services. In cases where rule changes clearly harm market participants with existing contracts developed under previous market or operational rules, SCE supports consideration of grandfathering clauses. Nevertheless, by structuring rules correctly now, the need for future grandfathering or other forms of special treatment diminishes. Clear and logical expectations are set when cost-causation principles are consistently and broadly applied. Thus, changes to cost-allocation for Ancillary Services, RUC, and Dynamic Transfers should be made early in the RIMPR 2 process.

Finally, SCE notes that the CAISO did not follow cost-causation principles in the design of its Flexi-ramp constraint in an effort to expedite implementation. As that operational change is currently up for review by FERC, SCE is raising the issue of proper cost-allocation in that forum. SCE strongly prefers, however, to work collaboratively with the CAISO and stakeholders early in the process to ensure products are effectively designed prior to FERC review. The CAISO's stakeholder process provides valuable assessments of the pros and cons of market designs, but the CAISO's important Guiding Principles should still frame this process.

II. The CAISO needs a clearer plan to ensure success in “Forward Flexible Capacity Procurement” designs.

²http://www.aiso.com/Documents/SCEComments_RewewablesIntegrationMarket-ProductReviewPhase2RevisedStrawProposal.pdf, p. 6.

SCE supports these efforts but expects their complexity will require significant time and effort to obtain a successful design. The CAISO's road-map fails to reflect the enormity of this lift.

The CAISO should reevaluate timing of the Forward Flexible Capacity Procurement Phase 2 enhancement based on a more realistic and detailed consideration of the effort needed to achieve success. Activities for Phase 2 should not delay other important mid-term enhancements, and SCE is concerned that the current parallel schedules may impede progress on all fronts. A forward market will require the development of broad political support, including the CPUC and likely other state policy makers, so the bulk of market design activity should occur only after consensus is established. SCE anticipates this process will take considerable time and effort and recommends the CAISO commence this aspect of the effort well in advance of planned market design activities.

Detailed needs-assessment studies should precede Phase I of the "Forward Flexible Capacity Procurement" enhancement. SCE expects some of this information from the Long-Term Procurement Plan Track I Study. SCE understands the CAISO's concern that flexible resources may shut-down, reducing the CAISO's ability to respond to operational challenges. However, the CAISO should not consider intervening in the markets unless there is clear proof that needed resources would otherwise not be available. CAISO tariff section 43.2.6 illustrates the rigorous assessment and proof needed for a simple capacity-based CPM.³ Thus, as part of Phase I, the CAISO's road-map should detail activities that ensure any flexibility-based CPM-like proposal will have "proof of need" provisions as a core design component.

³<http://www.caiso.com/Documents/Conformed%20fifth%20replacement%20CAISO%20tariff%20as%20of%20September%209,%202011>