

Stakeholder Comments

Bid cost recovery enhancements Straw Proposal

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Southern California Edison (SCE) presents comments on the California Independent System Operator's (CAISO) June 3, 2016 Straw Proposal¹.

Splitting real-time BCR uplift cost allocation into two tiers

Based on its analysis, the CAISO has concluded the following:

1. Uninstructed deviations and net negative demand deviations are not the main drivers for real-time BCR.
2. Commitment costs comprise the majority of real-time BCR.
3. Implementation of Flexible Ramping Product may lead to a reduction in real-time BCR.

Given the challenge in accurately identifying the cause of real-time BCR, and that commitment costs are the major driver of real-time BCR, the CAISO has focused on the causes of real-time unit commitments and identified them as follows:

- Changes in load forecast between two RTUC market runs not reflected in the DA market.
- Changes in VER forecasts between two RTUC market runs not reflected in the DA market.
- Outages from DA schedules not reflected the previous RTUC market run.
- Changes in net import positions between two HASP processes not reflected in the DA market.

The CAISO has proposed a two-tier real-time BCR cost allocation methodology based on the causes identified above. The proposed tier 1 allocation will spread the cost to Load, Supply and Interties. The allocated MWhs would be the daily summation of:

1. Increases in load forecast between two consecutive RTUC market runs that are not reflected in the DA.

¹ http://www.caiso.com/Documents/StrawProposal_BidCostRecoveryEnhancements.pdf

2. Decreases in VER forecasts between two consecutive RTUC market runs that are not reflected in the DA and the daily total generation outages not reflected in the DA that are below the resource's previous RTUC schedule.
3. Decreases in the net import position between two HASP market runs that was not reflected in the DA market. The real-time BCR uplift rate for Tier 1 would be the daily real-time BCR uplift cost divided by the sum of the above quantities, with the remainder pro-rata allocated to measured demand in Tier 2.

The CAISO's recommendation is to not implement the above, and to maintain the status quo, because the implementation costs may exceed potential benefits. The CAISO argues that the Flexible Ramping Product is already implementing a similar cost allocation methodology and it can be thought of as a "pseudo" tier 1 real-time BCR cost allocation. More importantly, the CAISO has pointed out that supply bids prices may increase, thereby mitigating the risk of real-time BCR uplift cost, thereby increase cost to load.

SCE agrees with the CAISO to maintain the status quo on tier 1 real-time BCR cost allocation. However, as the CAISO has identified, 50% of the commitment costs (\$25 Million out of the \$50 Million annual real-time BCR) are associated with the short-start, fast-ramping resources, and the CAISO has confirmed that commitment costs associated with short-start units that were awarded in the RUC process are accounted for in the real-time BCR, and not in the RUC BCR. SCE believes that the commitment costs for the short-start units awarded in RUC should be accounted for in RUC BCR and not RT BCR, to the extent that RUC commitment decisions were due to displacement from the virtual bids, those costs should fall under the RUC BCR cost allocation rules, in the way that RUC BCR associated with long-start unit commitment due to virtual bids is treated. SCE recommends that the CAISO realign those RUC commitment costs following the cost causation principle.

Accounting of start-up costs across the commitment period that may span across multiple trade days (this will impact both day-ahead BCR and real-time BCR)

As CAISO has pointed out, only 4% of total IFM and RT BCR payments between May 2014 and April 2016 were made to resources operating across trade dates, and implementing the proposed change to spread the start-up cost accounting across possibly multiple operating days will require significant implementation effort. Furthermore, implementing a change will create a

misalignment of gas cost associated with the start-up cost and the bid cost since the gas index changes daily, while the start-up cost is calculated only once for the day the unit was committed.

SCE agrees that the costs may outweigh the realized benefits at this time. Should the cost-benefit change in future, this topic needs to be revisited.

IFM BCR uplift allocation – credits for self-scheduled generation and imports

In response to SCE's earlier comment² that there is a policy inconsistency with the CAISO providing IFM BCR obligation reduction benefit for self-scheduled generation and import while assessing unavailability charges on self-scheduled generation and imports with RA obligations, the CAISO has proposed to rectify this inconsistency by removing credits for self-scheduled generation and imports from the IFM BCR cost obligation. SCE agrees with the CAISO that self-schedules may lead to less than optimal unit commitment decisions under certain conditions and may contribute to BCR costs, therefore SCE supports the removal of the credits.

The IFM BCR cost obligation also takes into account the inter-SC trades of load obligation. SCE requests the CAISO clarify if such trades were designed exclusively for the purpose of facilitating self-scheduled generation and imports to provide their contractual Load Serving Entities credits to help reduce the LSE IFM BCR obligation and with the removal of credits for self-scheduled generation and imports, this product would then become obsolete.

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