Comments of Southern California Edison Company on Draft Final Proposal - Standard Capacity Product II

Submitted by	Company	Date Submitted
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Southern California Edison Company ("SCE") has reviewed the California Independent System Operator's ("CAISO's") Standard Capacity Product ("SCP") II Draft Final Proposal, dated February 19, 2010 and provides the following comments:

- The CAISO should not adopt the Draft Final Proposal that places the obligation to replace capacity on a planned outage on the Resource Adequacy ("RA")-Supplier. Instead, the CAISO should support the development of SCE's proposal to increase the RA Requirement to account for planned outages.

- The CAISO's proposal that forced outages result in a proportional reduction to the net qualifying capacity ("NQC") for all resources whose QC is based on historical performance is flawed. The CAISO must account for differences in technology in establishing rules to implement the effect of forced outages on non-dispatchable resources.

- Legacy contracts (*i.e.* those signed before June 28, 2009) for Qualifying Facilities ("QF") whose Qualified Capacity ("QC") is based on historical data do not provide a mechanism for Scheduling Coordinators ("SCs") to compel the reporting of outage information. The CAISO should explicitly, and formally, recognize that the SCs for these resources should not face any consequences for failure to provide this data.

The CAISO Should Not Adopt The Draft Final Proposal That Places The Obligation To Replace Capacity On An Planned Outage On The RA-Supplier

The CAISO made several changes in the Draft Final Proposal from the Straw Proposal regarding how the CAISO will address the elimination of the California Public Utilities Commission's ("CPUC's") Load-Serving Entity ("LSE") replacement rule for RA resources on planned outages. Conceptually, the CAISO still proposes to place the obligation to replace capacity on planned outages on the RA-supplier, but modifies how it will implement this obligation. Despite these changes, SCE still has serious concerns over the implementation of this proposal. SCE believes that the Draft Final Proposal is still lacking in detail as to how the CAISO will equitably apply the new obligation, and will result in additional costs without additional benefit.

However, before SCE discusses the shortcomings of the Draft Final Proposal, SCE notes that it presented an alternative to the CAISO's proposal at the February 26 stakeholder conference call. Specifically, SCE proposes that no entity retain the obligation to replace capacity on a planned outage, and the Local Regulatory Authority ("LRA") adjust the RA requirement upward in an amount equal to the historical rate of planned outages that the CAISO approved as of the monthly supply plan submittal to account for the lack of a replacement obligation. SCE believes that this simplified approach will result in less cost to load overall, avoid many of the issues associated with developing a generator-based replacement obligation, and provide the CAISO with the RA resources it needs to reliably operate the grid. SCE presented a version of this proposal in the RA proceeding at the CPUC (R.09-10-032) in the form of written comments and a presentation at the CPUC's RA workshop. SCE plans to provide more detail regarding its proposal in Comments to Phase I Proposals in that proceeding, which are due March 8.

Accordingly, the CAISO should not adopt the proposal set forth in the Draft Final Proposal, and wait for SCE's CPUC Comments to Phase I Proposals to determine whether the CAISO would support SCE's RA Requirement-adjustment proposal. Even assuming the CAISO determines that it will not support SCE's proposal, the CAISO should still withdraw its proposal regarding the replacement obligation and advocate for maintaining the current replacement rule in the CPUC's RA proceeding because of the reasons enumerated below.

First, the Draft Final Proposal states that a supplier "must make a best effort to replace the resource with a non-RA resource in the same local area."[1] The Draft Final Proposal states further, "a local RA resource that provided replacement capacity outside that local area will be allocated a share of the ICPM cost" in the event ICPM capacity is needed.[2] Under this rule, it is unclear how the CAISO will be able to draw conclusions as to how the lack of a particular resource is the cause of CAISO's ICPM procurement activity. Without an ability to make this determination, the CAISO will be unable to apply this rule in an equitable manner.

Second, under the current RA program, LSEs can replace local resources on a planned outage with system resources. The Draft Final Proposal, however, provides that an RA-Supplier will risk being subject to ICPM costs if it does not replace local-for-local. Effectively, if an RA-Supplier does not wish to take this risk, the rule becomes a requirement to replace local-for-local. Given market power considerations and the fact that some areas require all generators in that area to meet the local capacity requirement need, this new and additional requirement will only increase cost to LSEs and their customers.

Fourth, the Draft Final Proposal requires RA-suppliers to replace capacity on a planned outage regardless of whether the CAISO needs the replacement capacity. Under the current RA program, if an LSE is long RA capacity, the RA rules do not require an LSE to engage in any additional procurement. The Draft Final Proposal now requires generators to procure this formally un-replaced capacity. This replacement capacity will only result in higher overall costs to load.

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1 Draft Final Proposal at 13.

2 *Id.*

Finally, the Draft Final Proposal may result in increased costs because generators may choose to not to sell a portion of their supply in order to account for their replacement obligation, and increase the cost of capacity in order to "price-in" the replacement obligation. In addition, costs may increase simply because of increased transactions costs associated with generators having to replace capacity.

Finally, the Draft Final Proposal still does not account for the "grandfathering" of existing contracts. Under the Draft Final Proposal, the RA-supplier (*i.e.,* the SC) is responsible for any ICPM charges for failure to replace a unit on a planned outage. SCs, however, might not have any ability to pass these costs on to the generators. Thus, if the CAISO still intends to adopt a generator replacement obligation, it must create an exemption from this obligation for those contracts entered into before the establishment of such a rule. Without such an exemption, the Draft Final Proposal will expose SCs to large amounts of planned outage risk that the SC has no control over. Moreover, when these agreements were originally entered into, parties relied on the current regulatory construct in the allocation of risks under these agreements. It would be fundamentally unfair to unilaterally shift these risks, on either party, for these contracts.

The CAISO Must Account for Differences in Technology in Establishing Rules to Implement the Effect of Forced Outages on Non-Dispatchable Resources.

In its Final Draft Proposal, the CAISO proposes that, for those resources whose NQC is based on historical data ("H-NQC Resources"), any forced outage that makes a unit's nominal capacity less than fully available during an SCP assessment hour will proportionately reduce that unit's NQC for the calculation of availability.[3] The CAISO proposes to apply this methodology to wind, solar, and non-dispatchable cogeneration, biomass and geothermal units. As discussed below, SCE believes that this methodology is not appropriate for all technologies because of inherent difference between technologies.

The CAISO's proposal implicitly rests on the assumption that NQC is directly proportional to fuel supply. By effectively removing all outages from the calculation of an NQC, any variation in actual output will be due to variations in fuel supply, or the effective equivalent, such as a variation in cogeneration host load. Fuel supply alone, however, does not determine the capacity capability of a resource. The resource's technology also impacts its ability to perform. Specifically, the CAISO should consider whether a resource is a composite generator or a single, conventional generator when determining whether to apply a proportional reduction in a unit's NQC availability calculation.

Composite generators, such as wind and solar, are aggregations of many small generators, each with similar or identical operating characteristics and each contributing individually to the whole (*e.g.*, a hundred wind turbines make up a wind generator). For composite generators, equipment outages are uniform in that they result in the complete removal of an individual generating component. Because the individual components have equal contribution to the whole, and all outages are uniform, the effect of equipment outages on a composite generator is simply to scale the size of the composite generator without changing its overall operating characteristics. Quite simply,

[3] *See id.* at 12.

if twenty 1 MW turbines out of a hundred are on forced outage, the wind farm becomes an 80 MW generator instead of a 100 MW generator. Couple this fact with an intermittent fuel supply, and it is reasonable to prorate outages on composite generators for both RA and non-RA capacity. In other words, SCE believes the CAISO's proposal is appropriate for wind and solar resources.

For single (conventional) generators, such as cogeneration, geothermal and biomass, outages are not uniform. Different pieces of equipment (fans, pumps, motors, etc.) have different contributions to capacity and different impacts on the operating characteristics of the overall generator. Key among these differences are the impacts on availability and reliability. For example, a fan or pump may reduce a unit's overall capacity by 10%, but the remaining 90% capacity is just as available and reliable as when there is no outage. Thus, the assumption that any partial outage simply scales the overall unit does not hold. Add to this the fact that fuel supply for geothermal, biomass and even cogeneration are not intermittent (relatively speaking), it is inappropriate for the CAISO to treat any partial outage as a necessary reduction in RA capacity. For single generator H-NQC resources, the CAISO should treat partial outages in the same manner as dispatchable resources. Partial outages should only count against the RA portion of capacity to the extent the reduction in capacity is greater than the non-RA capacity.

Current Contracts Do Not Require QFs whose QC is Based on Historical Data to Supply Outage Data

The Draft Final Proposal still contemplates that H-NQC Resources will no longer be exempt from reporting outage data under the SCP (regardless of whether the contract has been grandfathered or not).

SCE reiterates that most of SCE's current QF legacy contracts contain no provision that compels these resources to make such data available and/or verify the accuracy of this data. Although SCE commits to doing its best to solicit this data from these QFs, they are under no obligation to provide it. Accordingly, the CAISO should explicitly, and formally, recognize that the SCs for these resources should not face any consequences for failure to provide this data. Furthermore, SCE urges the CAISO to consider the ramifications of this issue when considering whether to aggregate this data (and its potential for unreliability) with other data in determining future availability standards.