Comments of Southern California Edison Company on Standard Capacity Product II Straw Proposal

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 Straw Proposal, dated January 19, 2010 ("Straw Proposal"). SCE appreciates the opportunity to provide these comments and looks forward to continuing its participation in the CAISO's effort to further refine the SCP into a fully fungible, tradable product.

From the outset, SCE agrees with the CAISO's decision to continue the temporary deferment of determining how it will eliminate the exemption from SCP's unavailability charges for Demand Response ("DR") resources while proceedings and stakeholder processes to revise DR programs are on-going. SCE also generally supports the CAISO's proposal to base the approach for Non-Resource Specific System Resources that provide Resource Adequacy ("NRS-RA") on SLIC-reported outages and de-rates, comparable to that adopted for internal resources.

With respect to other major provisions in the Straw Proposal, SCE provides the following specific comments:

- The proposal to place the planned outage replacement obligation on the generator in a manner similar to the current forced outage unit substitution rule is lacking in detail and could result in unintended negative impacts on the market.

- 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.

<u>Elimination of the CPUC's Planned Outage Replacement Rule</u>

SCE has serious concerns over the Straw Proposal's proposal to address the elimination of the California Public Utilities Commission's ("CPUC's") Load-Serving Entity ("LSE") replacement rule for resource adequacy ("RA") resources on planned outages by placing the replacement obligation on the generator in a manner similar to the current forced outage unit substitution rule. As currently drafted, the Straw Proposal is lacking in detail that is essential in determining whether the CAISO can even implement such a proposal. As discussed below, the CAISO must fully vet the details of placing the replacement obligation on the generator in order to ensure that such a rule does not greatly affect the market in a negative fashion.

First, the Straw Proposal is unclear as to what the minimum duration of a planned outage will require unit substitution. Under the Straw Proposal, if the CAISO requires a generator to replace, and the generator is unable to do so, the Straw Proposal provides that the CAISO will charge the generator for ICPM backstop procurement. The ICPM, however, involves, at a minimum, a one-month commitment from the unit providing backstop capacity. Thus, even if a generator were on a planned outage for a single day, it would still potentially be required to pay for an entire month of backstop procurement. Not only does such an outcome make little sense and will result in market inefficiencies, the imposition of an entire month's worth of backstop procurement for a day of planned outage is excessively punitive. Moreover, such an outcome is wholly inconsistent with the current CPUC replacement rule that allows a generator to fully count for RA if its schedules outages are less than one week.

Second, the Straw Proposal is unclear as to how it will determine, in an equitable manner, which generators will be required to substitute capacity, and which will not. For example, suppose that on September 30, Generator A and Generator B (each 100 MW) both request a planned outage for the month of November. And, with either generator out, the CAISO requires backstop procurement. Under such a scenario, the Straw Proposal does not provide which generator the CAISO would grant the "free" planned outage, and which would be responsible for one month of ICPM payments. SCE is not entirely certain this dilemma can be resolved easily, but notes that it must be done in an equitable and non-discriminatory manner.

Third, the Straw Proposal is unclear as to how it will address unit substitution in local areas where there are no additional units to substitute. The SCP substitution rules require replacement capacity to be "electrically equivalent" to the original capacity, and from a non-RA resource. But in 6 out of 10 Local Areas, the CAISO requires all generators to meets its local capacity requirement ("LCR") need (*i.e.,* North Coast/North Bay, Sierra, Stockton, Kern, San Diego, and Humboldt (96% of capacity needed to meet the LCR)). The Straw Proposal's failure to address this issue begs a couple of important questions: Are units in these areas prohibited from taking planned outages or will the CAISO waive the substitution requirement for these local areas? If the CAISO waives the substitution rule, is the waiver inherently discriminatory compared to rules for the other local areas? Essentially, it is unclear how the CAISO will apply its substitution rules to these resources when it has already been pre-determined that substitution is impossible.[1]

Fourth, the Straw Proposal does not account for the "grandfathering" of existing contracts. Under the Straw Proposal, the RA-supplier (*i.e.,* the Scheduling Coordinator ("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

[1] SCE further notes that the requirement that replacement capacity be "electrically equivalent" to the original capacity is wholly inconsistent with the current CPUC rule that allows the LSE to replace RA capacity with system capacity.

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, SCs will be exposed 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.

Fifth, the Straw Proposal is unclear as to how the timing of requests for planned outages and the CAISO's determination of whether a generator will be required to acquire a substitute unit will occur. The Straw Proposal states that when an RA resource intends to take a planned outage in a particular month, the supplier will indicate the details of the intended outage in its supply plan and put a request into SLIC. Because the CAISO will not know whether a resource is an RA resource until the RA-supplier submits its supply plan, it is unclear as to whether the generator will have to wait until then to know whether the CAISO has approved its planned outage. Assuming this is the timeline contemplated by the Straw Proposal, the generator would be faced with a number of issues including an inability to schedule planned outages farther than a month in advance and potentially having to procure substitute capacity in a very short time period.[2] These issues are only further complicated by the fact that the CAISO could potentially face a number of requests for planned outages, and have to respond to these requests in a short time-frame. The Straw Proposal, however, provides no insight as to how the CAISO will practically address these issues. Without further clarity surrounding these details, generators will face great uncertainty in how they will be able to take their planned outages.

Given all of these uncertainties and complexities, the CAISO should not adopt generator replacement rules for planned outages similar to the forced outage unit substitution rule. In order to support a fungible and tradable SCP, the CAISO should consider the concept of not having the replacement of RA capacity on a planned outage be placed on the generator or LSE. Instead, planned outages could be addressed through the Local Regulatory Authority's ("LRA's") implementation of an RA requirement ("RAR") that is based on a planning reserve margin ("PRM") and a rate of planned outages. In the CPUC's current RA proceeding (R.09-10-032), SCE has provided written comments and made a presentation at the CPUC's workshop regarding how planned outages could be incorporated through an increased monthly RAR that is based on the CPUC-determined PRM, adjusted for planned outages. Under such a concept, the CAISO would be provided sufficient RA resources in a given month because planned outages would already have been accounted for in each LSE's RAR. We encourage the CAISO to consider this concept as it is being discussed in the CPUC's RA proceeding.

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

SCE recognizes that through its June 26 Order, the Federal Energy Regulatory Commission ("FERC") requires the CAISO to extend the SCP standards to currently-exempt QF resources in a timely manner. SCE supports the provisions in the Straw

2 Also, will the generator be given time to decide whether or not it wants to proceed with the outage if the CAISO determines replacement capacity is needed due to the planned outage (i.e. can generator choose not proceed with the schedule an outage rather than pay ICPM)?

Proposal that seek to accomplish this by replacing forced outage data for these resources with proxy energy outputs. SCE notes, however, that the Straw Proposal contemplates that these resources will also no longer be exempt from reporting outage data under the SCP (regardless of whether the contract has been grandfathered or not).

Most of SCE's current QF legacy contracts contain no provisions that can compel SCE to require the QF to make outage data available and/or verify the accuracy of this data. Although SCE commits to doing its best to solicit this data from these QFs, these resources are under no obligation (contractual or otherwise) to do so. 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 or not to aggregate this data (at its potential for unreliability) with other data in determining future availability standards.