SDG&E's Comments on Standard Capacity Product II Proposal

SDG&E offers the following comments on the CAISO's Standard Capacity Product II (SCP II) proposal that was discussed on the February 26, 2010 stakeholder conference call. At that time, the CAISO stated that it would be amenable to moving the date for presenting the SCP II proposal to its Board of Governors from March 25, 2010 to the May 2010 Board if the extra time would be useful in reaching a stronger consensus on the issues under discussion. SDG&E supports extension of the stakeholder process by two months. SDG&E believes that taking two additional months to resolve several controversial SCP II issues would be time well spent and would not prevent implementation of the SCP II proposal for the 2011 Resource Adequacy (RA) compliance year. Moreover, the extra time would enable stakeholders to sharpen their understanding of a replacement rule proposal that was offered by Southern California Edison during the February 26 conference call.

I. Currently Exempt Resources

As the SCP II proposal now stands, SDG&E conditionally supports extension of the SCP II availability requirements to the currently exempt solar, wind, and QF resources. To accomplish this objective, SDG&E believes that the CPUC's RA counting rules must first be changed to eliminate the potential for double counting of forced outages. Also important to implementation of the SCP II proposal is changing the availability metric for the currently exempted resources from P Max to the Net Qualifying Capacity (NQC) metric, which is already used for dispatchable resources. Using the NQC metric will allow the availability penalties and rewards to be apportioned fairly and equally between intermittent and dispatchable resources.

Once these issues are addressed, SDG&E believes the SCP II availability requirements can be applied to wind, solar and QF resources.

II. Transition

SDG&E believes the SCP II proposal should only be implemented prospectively. The CAISO recognizes that a transition is needed, but proposes to grandfather only those contracts signed or submitted to the applicable regulatory authority prior to June 28, 2009. SDG&E, however, has contracted for capacity from intermittent resources since June 28, 2009, relying upon the regulatory policies and rules that were in place at the time to allocate risks and benefits under the contract. SDG&E believes that it would be unfair to shift unilaterally the risks and benefits negotiated by the parties to the contract. Accordingly, SDG&E urges the CAISO to follow previous FERC practice of grandfathering those contracts that will have been negotiated and signed prior to FERC's approval of the new SCP II tariff amendments.

III. Modification of the Capacity Replacement Obligation

SDG&E supports modifying the capacity replacement obligation only if the following two changes are included in the CAISO's proposal. Without these changes, or something similar, SDG&E cannot support the SCP II proposal. First, the CAISO should alter its requirement that scheduling coordinators (who are frequently load-serving entities like SDG&E) must find replacement capacity for *all* planned outages regardless of need. Under current rules, unless a planned outage takes the load-serving entity below 115 percent of its forecasted monthly peak requirement, the load-serving entity does not have to procure additional replacement capacity. Conversely, under the CAISO's draft proposal, additional replacement capacity must always be procured to cover a planned outage, regardless of the outage's effect on available system capacity. SDG&E believes the CAISO should continue to coordinate outage requests with the goal of keeping available system capacity above 115 percent of forecasted load. If the 115 percent barrier is not breached, then replacement capacity should not be necessary. If the outage request cannot be accommodated without compromising the 115 percent threshold, then the CAISO should either deny the request, or approve it and require replacement of some or all of the capacity.

Second, the CAISO's draft proposal would require scheduling coordinators to cover a planned outage of local capacity with other capacity in the local area. If the scheduling coordinator cannot find replacement capacity in the local area, then a system resource can be procured instead. But if the planned outage produces a shortage of capacity in the local area, then the CAISO proposes to allocate back-stop procurement costs, such as ICPM costs, to the deficient scheduling coordinator. SDG&E construes this proposal to be a potential double penalty on the scheduling coordinator because the scheduling coordinator has no way of knowing whether the planned outage will cause a capacity shortage in the local area. Only the CAISO, who has the ability to grant or deny the planned outage, has the ability to foresee capacity shortages in a local area. Moreover, only the CAISO has the information to determine whether replacement of local capacity by a system resource will be electrically sufficient to preserve local reliability.

Accordingly, SDG&E believes that in approving a planned outage of a local capacity resource, the CAISO should first determine whether any replacement capacity is necessary, whether local capacity is available, and whether a system resource would be an acceptable replacement for the planned outage. If either local or acceptable system replacement capacity is available, then the CAISO should state how much is required and in which electrical area the system resource can be procured. The scheduling coordinator should then be given an opportunity to procure the local or system capacity needed to cover the planned outage. If the scheduling coordinator is unable to procure acceptable replacement capacity and still wants to take the planned outage, then the CAISO should use its back-stop procurement authority to cover the outage, either with local capacity or a system resource that is an acceptable proxy for the local resource taking a planned outage. The costs associated with the CAISO's back-stop procurement should be allocated to the scheduling coordinator. If this arrangement is unacceptable to either the CAISO or scheduling coordinator, then the planned outage should be re-scheduled to a more opportune time.

IV. Allocation of Availability Incentive Payments to All Metered Demand

SDG&E opposes the proposal to allocate surplus Availability Incentive Payments to all metered CAISO Demand. Currently, any surplus payments are allocated to metered CAISO demand that is scheduled at one of the three default LAPs. SDG&E believes that the surplus incentive payments should remain with the three default LAPs because not all metered CAISO demand shoulders RA requirements and thus face the prospect of being penalized for having insufficient capacity available to support system reliability.

V. Conclusion

SDG&E believes that making SCP II a more liquid and tradable product requires changes from both the CPUC and the CAISO. The CPUC must eliminate the forced outage counting rule which currently derates the capacity value of these resources, thereby understating the real capacity values when these resources are subjected to the CAISO's SCP II availability requirements. The CPUC should also clarify that its requirement to list all capacity resources in the month-ahead system RA demonstration filing does not preclude a load-serving entity/scheduling coordinator from using those resources that are surplus to meeting its 115 percent of monthly peak requirement as replacement capacity for planned outage purposes.

The CAISO should require replacement for planned outages only when replacement is needed to maintain 115 percent of monthly peaks. If replacement is required, the scheduling coordinator for the resource should then have the option of finding system replacement capacity or being allocated back-stop procurement costs, or rescheduling the outage. Planned outages of local capacity resources should be replaced by the scheduling coordinator with other local resources or with a system resource acceptable to the CAISO. If the scheduling coordinator is unable to comply, then the CAISO should procure local capacity or, if none is available, system capacity that best serves as a proxy for the local capacity on planned outage, with the resulting costs allocated to the scheduling coordinator. Surplus availability incentive payments should be allocated only to those that shoulder RA obligations designed to preserve system reliability.