

Stakeholder Comments Template

Submitted by	Company	Date Submitted
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The California Independent System Operator’s (CAISO) Draft Final Proposal for the Temporary Shutdown of Resource Operations (TSRO) Initiative proposes to adopt conditions under which the CAISO may permit a resource owner to request to take a resource out of service for non-physical reasons and what compensation the CAISO will provide if it denies the resource owner’s request.¹ The CAISO posted its Draft Final Proposal on September 6, 2017 and held a stakeholder conference call on September 13, 2017 to discuss the Draft Final Proposal.

As explained below, the Office of Ratepayer Advocates (ORA) does not support the Draft Final Proposal in its current form. The Draft Final Proposal would use a new additional methodology to evaluate whether to grant a resource owner’s request to shut down temporarily. The proposed TSRO methodology, while not fully developed, appears more stringent than the standard for meeting Resource Adequacy (RA) requirements or for receiving Capacity Procurement Mechanism (CPM) payments. Use of a different standard for TSRO designation opens the door to potential gaming and unnecessary higher costs for ratepayers. ORA recommends deferring action on the TSRO proposal until the questions and issues identified in these comments are resolved.

1. Please indicate whether you support the Draft Final Proposal.

Comments:

ORA does not support the proposal to allow resources to go on outage for non-physical reasons because questions regarding adoption of an alternative capacity assessment for TSRO and implications for the Capacity Procurement Mechanism (CPM) and Resource Adequacy (RA) program remain unresolved.

¹ TSRO Draft Final Proposal, p. 3.

A. The Draft Final Proposal relies on a new, more stringent capacity analysis, but the CAISO has not explained why the existing analysis used for RA and CPM is insufficient for evaluating TSRO requests.

To determine whether to grant requests for temporary shutdown, the CAISO proposes to conduct two assessments.² One is a reliability assessment using the Peak Reliability Coordinator System Operating Limit methodology and outage coordination process to determine if the shutdown would constrain the CAISO's ability to mitigate a potential reliability issue through a feasible market solution. The second is a capacity analysis to ensure that available capacity does not fall below what is expected to maintain reliable operation. If either assessment determines that a resource requesting shutdown is needed, the CAISO would deny the request and pay the resource through the CPM.

It is not clear why the CAISO is proposing a new method for measuring capacity. The CAISO currently has the authority to designate eligible capacity to provide CPM capacity service when there are deficiencies in RA, when unexpected needs arise, or when resources at risk of retirement are needed for reliability by the end of the calendar year following the current RA compliance year.³ While CAISO staff stated that the proposed TSRO capacity analysis would be the same analysis that the CAISO uses for determining procurement under CPM, responses to stakeholder questions revealed differences between the proposed TSRO capacity analysis and CAISO's existing capacity analysis.⁴ For example, CAISO staff stated that the TSRO capacity analysis would be based on an internal monthly 1-in-10 load forecast plus operating reserves. However, the CAISO and the California Public Utilities Commission (CPUC) use load forecasts developed by the California Energy Commission (CEC) to determine RA requirements.⁵ Additionally, the CAISO's Local Capacity Technical Study uses a 1-in-10 year summer peak load forecast and the CAISO's System Requirements and Flexible Capacity Needs Assessment use a 1-in-2 monthly peak load forecast.⁶

² TSRO Draft Final Proposal, p. 14.

³ *CAISO Business Practice Manual for Reliability Requirements Version 33*, Section 12.5-12.6, pp. 148-154.

⁴ September 13, 2017 TSRO Stakeholder Call.

⁵ *The 2016 Resource Adequacy Report*, CPUC, p. 10; *2018 Local Capacity Technical Analysis*, CAISO, p. 1; and *Final Flexible Capacity Needs Assessment for 2018*, CAISO, p. 8. Moreover, the use of an internal, unvetted forecast to measure capacity and determine whether to grant a request for TSRO designation is inconsistent with the agreement between the CAISO, the CEC, and the CPUC to develop and use joint planning assumptions in their related planning and procurement processes. *January 31, 2014 Letter from the CAISO, CEC, and CEC to the State Senate Committee on Energy, Utilities and Communications*. Available at https://www.caiso.com/Documents/CEC_CPUC_ISO-FollowUpLetter-SenatorsPadilla_Fuller_Jan31_2014.pdf

⁶ *The 2016 Resource Adequacy Report*, CPUC, p. 10; *2018 Local Capacity Technical Analysis*, CAISO, p. 1; and *Final Flexible Capacity Needs Assessment for 2018*, CAISO, p. 8.

B. The proposed methodology to evaluate TSRO requests is not sufficiently detailed or transparent.

At the September 13, 2017 workshop, the CAISO stated in response to stakeholder questions that it had not yet determined how its proposed capacity analysis would account for demand response and that it had not yet discussed whether to make the capacity analysis public. The Draft Final Proposal should not be submitted to the CAISO Board for approval without disclosing these important details. The CAISO should ensure an open and transparent process by providing stakeholders with a description of the specific changes it would need to make to the CPM sections of its tariff and/or Business Practice Manual (BPM) based on the Draft Final proposal.

C. The Draft Final Proposal would make it easier for a resource to achieve a determination of need in response to a TSRO request than under the RA or CPM programs and thus opens the door to potential gaming.

The CAISO's proposed capacity analysis would establish more stringent requirements for reliability than those currently used for the RA program and under the CPM, which means that the threshold for determining whether a resource is needed would be lower. This could lead to findings of insufficient capacity even if all RA program requirements have been met and the current conditions for CPM designation do not arise. Thus, the CAISO's proposal would introduce a new reliability standard based on its own internal forecasts, and this new reliability standard could create a need for capacity contracts through CPM using a standard different from its current standard for authorizing CPM procurement. Using a more stringent reliability standard for TSRO designation has the potential to negatively impact the ability of Load Serving Entities (LSEs) to negotiate bilateral RA contracts because resource owners will know that lucrative CPM payments will be available if they seek TSRO status when the CAISO's analysis shows they are needed.

If the CAISO is concerned that current RA requirements will not provide sufficient capacity and seeks to explore alternative analyses to increase RA procurement, the CAISO should propose modifications to the RA construct. The CAISO should not adopt a separate reliability requirement that is incongruent with RA program analyses and contracting.

ORA recommends that the CAISO provide a detailed proposal for its methodology for a capacity analysis and address the impacts the TSRO request will have on the CPM and the RA program. The CAISO should resolve these concerns before moving forward with seeking CAISO Board approval.

2. Please provide any additional comments.

Comments:

A. The CAISO should limit the availability of TSRO status to resources that can demonstrate economic distress or that operation without a capacity contract would be uneconomical.

ORA recommends that the CAISO revise its proposal to only refer to outages for “economic” reasons and require a showing of economic distress or that it would be uneconomical for the resource owner to operate the resource without a capacity contract. The CAISO made a commitment to consider whether it “should allow for economic outages and what form of compensation, if any, the CAISO should provide if it denies a generator’s maintenance or economic outage.”² The CAISO should clarify why it would allow resource owners to request outages for all non-physical reasons and what those non-physical reasons might include, if not based on economics. Limiting the initiative to economic outages and requiring a showing that the costs to run a resource would exceed the expected revenue from participation in the energy market would limit the potential for resource owners to simply use this process to determine the need for their resources.

B. The CAISO should provide the analysis supporting its TSRO decisions to stakeholders, using non-disclosure agreements as needed to protect market sensitive information.

The CAISO stated that that it does not plan to provide analysis publicly before or after deciding whether or not to grant a TSRO request. The CAISO’s proposed methodology for its capacity analysis is unclear and not sharing the underlying analysis regarding whether or not to grant a TSRO request and designate a resource under the CPM if the request is rejected exacerbates this lack of clarity. If the CAISO’s analysis contains market sensitive information, the CAISO, at a minimum, should provide its analysis and hold stakeholder calls for stakeholders who sign non-disclosure agreements.

In particular, the CAISO should provide information to stakeholders that supports any decision to reject a TSRO request and designate a resource as eligible for CPM payments, since CPM payments are often significantly higher than the cost of RA contracts, which will impact ratepayers. The CAISO also should provide information to stakeholders regarding the situation where the CAISO would bring back a resource that has been shutdown under the TSRO earlier than expected, which would prompt a CPM payment with adders. The CPM report should separately identify the payment for CPM, in addition to any adders for the cost to return a resource from TSRO shutdown early.

C. The CAISO should identify TSRO shutdowns as a separate category in its outage management system (OMS).

² *Temporary Suspension of Resource Operations Issue Paper*, May 10, 2017, p. 5.

<<https://www.caiso.com/Documents/IssuePaper-TemporarySuspensionofResourceOperations.pdf>>

The CAISO plans to report TSRO shutdowns using the outage management system (OMS), similar to the reporting of planned and forced outages.⁸ TSRO shutdowns should be identified as a separate category from planned or forced outages in OMS reporting. TSRO has the potential to allow significant quantities of capacity to leave the market, and information on participation in TSRO should be transparent for stakeholders to accurately assess the impact it will have on the CAISO market. Additionally, accurate reporting of TSRO outages will facilitate ORA review of LSE contracting activities.

D. The CAISO should provide information regarding TSRO requests and participation in TSRO and CPM to the Department of Market Monitoring (DMM) and the CPUC.

The TSRO proposal has the potential to either temporarily remove significant capacity from the grid and/or increase CPM contracting. This could impact energy and capacity prices, and increase ratepayer costs. If the TSRO proposal is implemented, ORA recommends that the CAISO annually provide information on its decisions regarding TSRO requests and resource participation in TSRO and CPM as a result of this initiative to the Department of Market Monitoring (DMM) and the CPUC. This will allow the DMM and CPUC to include analysis on the impact of the initiative in their respective annual reports on the CAISO market and RA program contracting.

E. The CAISO should make CPM payments to resources that are denied TSRO status based on a resource's Net Qualifying Capacity (NQC) rather than its nameplate capacity.

The Draft Final Proposal states that the CPM “payment amount for a denied request will be the whole unit MW of capacity of the resource....”⁹ ORA recommends that the CAISO state that this calculation will be based on Net Qualifying Capacity (NQC) and not Nameplate Capacity. Typical contractual RA capacity payments are based off of the NQC of a resource because it is the level of reliable capacity that the resource can actually deliver. Using Nameplate Capacity of a resource could overstate the amount of RA capacity and require payment for capacity beyond what it can reliably deliver.

⁸ TSRO Draft Final Proposal, p. 14.

⁹ TSRO Draft Final Proposal, p. 15.