# Southern California Edison's
# Stakeholder Comments

## Reliability Services Initiative Working Group 2/24/14

| Submitted by | Company | Date Submitted |
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Please find Southern California Edison (SCE) comments on the February 24, 2014 Reliability Service Initiative (RSI) working group. SCE appreciates the CAISO's efforts to work with stakeholders to explore issues related to the replacement of CPM, and for possible market based mechanisms for capacity procurement. SCE offers comments on the following:

- Since there is no prospect of a full capacity market in the near future, changes in RA must work within the current bilateral framework for the foreseeable future
- The role of RA in planning space, and the role of spot markets to ration capacity
- The need for close coordination with the CPUC
- Concerns over complexity, particularly with Flexibility
- Issues with self-scheduling and must-offer requirements
- Replacement of CPM

### 1. Changes in this RSI process must work within the current bilateral framework

According to the CAISO's Phase 2 proposal, discussions about comprehensive capacity markets will not even begin until sometime in 2015. Moreover, the CPUC continues to raise concerns over the efficacy of capacity markets in meeting their policy goals. As a result, participants should not expect functional capacity markets in the near future. Thus, any design changes as part of the RSI process must work within the general framework of the current bilateral procurement process for the foreseeable future.

In turn, the CAISO should only pursue a relatively basic Flexible RA structure. The CAISO should not expect the bilateral structure to accommodate multiple "flavors" of multiple "flexible products". This complexity would prove impractical and hinder the existing market structure from producing reasonable results.

## 2. RA is a planning exercise; spot markets should ration both RA and non-RA capacity on a day-by-day and hour-by-hour basis

The CAISO should view the RA process as a *planning* exercise. That is, the RA process ensures the CAISO has sufficient generation, demand response, storage and other "steel in the ground" technologies needed for reliable grid operations. RA simply ensures the resources and tools needed to operate the grid 1) physically exist, and 2) agree to participate in the CAISO markets. At the end of the RA process, the CAISO should expect a "ledger of viable RA resources" committed to its markets. And, given the *physical capability* (not the specific market behavior) of these resources, the CAISO must have comfort it can maintain a reliable grid. For the sake of clarity, the CAISO should consider the hypothetical question of "if RA resources perform in a manner that supports operations, do I have confidence I can operate the grid reliably?" If the answer is "yes", the RA process accomplished its objective.

With this ledger of resources, the CAISO should now count on their spot markets (energy, ancillary services, RUC, flexible ramping) to direct the day-by-day, hour-by-hour, minute-by-minute operations and use of all market capacity. The CAISO's sophisticated simultaneous co-optimization does an outstanding job in properly and economically rationing generation functionality among the various products. Put another way, the market already tells participants what production or services are most valuable under current conditions. And it economically rewards participants for providing the most valuable products.

For clarity, SCE is not advocating an "energy only" market or the elimination of RA and capacity requirements. To the contrary, because California has an RA process, the CAISO does not need an "energy only" market to ensure needed generation (or alternatives) has sufficient revenue sources. Rather, SCE emphasizes that CAISO's spot markets are designed to efficiently ration capacity and make economic decisions on the most efficient use of generation (whether it is for energy, A/S, flexibility, RUC). The CAISO should focus on using these spot markets, rather than complicated, cumbersome and potentially costly must-offer structures, to decide when and how to efficiently utilize the capacity provided by RA (and non-RA) resources.

## 3. Any changes to RA require close coordination with the CPUC

As noted, the current bilateral RA process will continue for the foreseeable future. As a result, CAISO changes require close coordination with the CPUC. For example, annual or month-ahead voluntary auctions will likely have insufficient liquidity for meaningful price formation without participation from CPUC regulated entities. Thus, the CAISO should not move forward on specific designs without first understanding the CPUC's position on foundational issues (such as their view on IOU participation in annual, monthly or intra-month CAISO run capacity mechanisms).

### 4. <u>SCE remains concerned over "complexity creep", particularly with Flexibility</u>

SCE notes that no other ISO has a "flexibility" requirement as part of their RA or capacity market design. While SCE supports the CAISO's desire to incorporate "flexibility" into the RA process, the concept is unproven and may ultimately be shown to be unworkable or undesirable. SCE encourages the CAISO to refine and prove the core concept of "flexible" capacity before even considering adding additional layers of complexity.

Specifically, the CAISO should adopt a single flexibility requirement for the foreseeable future. They should not add additional "flexibility products" such as Regulation, 10-minute Ramping or other specific flexibility requirements. Rather, if the current 3-hour ramp metric proves inadequate to provide a ledger of resources that ensures reliability, the CAISO should revisit this metric (instead of creating new products). As noted above, the CAISO must have a workable structure given the bilateral procurement regime of a significant portion of its LSEs. Adding product, upon product, on top of an unproven "flexibility" structure will all but guarantee an unworkable result. Additional complexity might be possible in a fully centralized and optimized capacity market. However, SCE does not expect such a market in the near-term. Additionally, even with such a market the CAISO has not demonstrated that adding additional flexibility products in RA-space is a necessary or preferred approach.

Likewise, the CAISO should abandon plans for complex-must offer obligations as discussed below.

### 5. <u>Issues with self-scheduling, must-offer requirement, and performance penalties</u>

SCE questions the need for additional must-offer requirements on Flexible RA. As noted, the RA process should ensure flexible capacity <u>*exists and agrees*</u> to participate in the CAISO markets. The CAISO markets should ration capacity based on the actual demand the system faces hour-by-hour. Prior to making any changes, SCE asks the CAISO to demonstrate that the existing must-offer requirement is inadequate for Flexible RA. Given spot markets that provide economic incentives to sell products based on their hour-by-hour value, why does the CAISO need to place any restrictions on Flexible RA beyond the existing RA must-offer requirement? The CAISO points to parties that currently "self-schedule" flexible resources to justify "no self-scheduling" rules. Rather than enforce more complex rules, the CAISO should focus on understanding the root problem of self-scheduling. The CAISO should identify such "self-scheduling" parties and interview them to find out why they self-schedule. There may be a market design issue that can address the problem, or there may be a regulatory issue that could be addressed with their regulator, or perhaps some other reasons will be discovered that will point to a different solution. Regardless, the CAISO should first fully understand the current perceived problem before developing a "solution".

Similarly, SCE has a host of concerns over non-performance penalties. At a high level, parties should not charge a "premium" for Flexible RA capacity simply to hedge against onerous CAISO must-offer obligation or to insure against unjustified and unreasonable ISO penalty costs. This structure simply saddles ratepayers with costs without providing commensurate benefits. The CAISO must avoid such a result. Moreover, the grid's need for flexibility changes as supply and demand conditions change. A "fixed penalty" irrespective of system conditions and prices, makes little sense. Moreover, if parties "show" RA capacity above and beyond their minimum required showing, this additional supply <u>should never face penalties</u>. The current penalty structure provides an incentive for LSEs to minimize the resources shown as RA to mitigate penalty risk. This in turn reduces the amount of RA capacity available to the CAISO.

Finally, the CAISO must have simple and rational substitution/replacement rules. Flexible RA rules such as "you can only substitute Flexible RA with a resource that has an equal or superior ramp rate" will likewise harm the CAISO. Under this structure, parties would have incentives to "show" their worst performing resources (rather than their best performing) as insurance in case substitution is needed. Simple and reasonable rules – such as, "any Flexible resource can substitute for any Flexible RA resource" - will benefit implementation and participation.

**6. <u>Replacement of CPM</u>**

First, SCE notes the data compiled and presented by PG&E that, to date, all 26 CPM contracts have been for Significant Events or ED within the month. Thus, any solution must address these very short-notice events. The CAISO proposed some version of an annual or monthly backstop market in which "unused" bids would be forwarded to the intra-month CPM process. SCE is willing to discuss the merits of this proposal further, particularly for intra-month issues. However, before moving forward with an annual or voluntary monthly process, the CAISO should coordinate with the CPUC to determine their level of interest in such an approach.

The other leading option for intra-month CPM is simply some extension of the current process with an administrative price. SCE sees merit in the simplicity and proven nature of this approach and is willing to discuss this also.

In summary, SCE remains committed to working with the CAISO and other stakeholders to find workable and reasonable solutions to address the replacement of CPM and needed changes in the RA structure.