

Stakeholder Comments

Reliability Services Initiative Revised Straw Proposal

Submitted by	Company	Date Submitted
Eric Little (626-302-3301)	SCE	September 9, 2014

SCE submits the following comments on the CAISO's Reliability Services Initiative. Revised Straw Proposal. These comments are based upon SCE's review of the CAISO's Reliability Services Initiative Revised Straw Proposal. (August 11, 2014) and SCE's participation in the September 16, 2014 Stakeholder meeting.

Section 4.3.2 Non-Generator Resources

As SCE commented previously¹ it is not clear whether a system in which the ability to provide a qualifying capacity as a pre-requisite to providing flexible capacity continues to be an appropriate mechanism. SCE believes that both the need to meet peak load and the need to meet ramping requirements are equal in terms of reliability risk. The failure to meet either requirement can lead to system instability or outage. While not explicit, the August 11, 2014 RSI revised straw proposal appears to allow non-generating resources to obtain a qualifying capacity via REM as a mechanism to allow such resources to meet flexibility needs since the current mechanism dictates that to be granted an EFC, first, a resource must obtain an NQC. In previous comments, SCE questioned whether the NQC as a pre-requisite to an EFC was still valid given developments in non-generating resources.² SCE believes it to be evident that certain resources (e.g. battery storage, demand response) can be designed in a variety of ways. In one manner, such programs could be configured to meet peak loads while in another configuration could be designed to meet ramping needs while never being configured to meet both. SCE therefore does not believe the requirement to first have an NQC is relevant any longer. SCE believes it premature to assume that all non-generating resources will meet ramping needs through REM. Given that, SCE encourages the CAISO and market participants to consider more broadly the NQC before EFC requirement to allow the market to respond to system needs in a manner that meets those needs and is met expediently. As such, SCE continues to believe that the mere ability to meet REM is not necessarily the appropriate mechanism to qualify for RA whether flex or peak load need. Instead, the CAISO and

¹ See SCE comments submitted 7/9/2014 at page 1 - 2

² Id at page 2, "SCE understands that REM resources are attractive for their ability to provide ramping which is needed in the Flexible Ramping RA requirement. If the inclusion of REM resources as a qualifier for QC is being considered strictly as a means to allow those resources to qualify for EFC (since currently the rules dictate that only resources with a QC can qualify for an EFC), then it is likely time to review whether it is appropriate to continue to require that all EFC also have a QC."

stakeholders should examine how a resource contributes to each reliability need independent of each other.

Section 4.5.1 Inter-tie Resources

SCE is encouraged that the CAISO is examining the varieties of resources that can be utilized to meet the ramping need. SCE is concerned that the requirements for inter-ties should not reach a dispatchable level consistent with a generator internal to the CAISO. Even with internal resources, it must be recognized that not every ramping need will be met based on the attributes of a single resource. Rather, it is the portfolio of resources available to the CAISO that can be used to meet, short, mid, and long-term ramps. In the revised straw proposal, the CAISO states:

The ISO finds that 15-minute intertie resources could provide an extra source of flexible capacity to address longer duration flexibility needs. But it may not be enough to simply look at the upward changes in the forecasted net-load to see how much 15-minute dispatchable intertie capacity we can use to address flexibility needs with longer durations. This is because we must also ensure that load-following and short-duration ramping needs are also addressed. (emphasis added)

While SCE understands that the CAISO has multiple constraints in meeting ramping needs, the solution should be to examine the types of resources that can contribute to at least one or more of those needs and then ensure that the CAISO has a variety of resources within its portfolio to meet all of the ramping duration needs. To exclude a resource type a priori based on its inability to meet a specific ramping need does not appear to be an appropriate methodology.

Section 6.5.1 Generic Resource Adequacy Capacity

Within this section, the CAISO proposes to reconsider the offer obligation in a subsequent phase of this initiative.

The ISO proposes a two-phase path forward for establishing assessment hours for generic RA capacity. Currently defined must-offer requirements are not in place to clearly delineate assessment hours for generic RA resource availability. The ISO is aware that certain resources are not in fact available or under contract 24 hours each day and it would be a significant change to hold all generic resources accountable to a 24-hour bidding availability check.

The ISO therefore proposes in phase one of this initiative to maintain the five-hour methodology used in the current SCP assessment hours. In phase two of this initiative the ISO can evaluate the benefits assessing resources every hour they are contracted as RA capacity.

While not relevant for the current phase, SCE is concerned with a must offer obligation which resources cannot meet either for physical or contractual reasons. If use limited resources are allowed to provide resource adequacy, then the system must recognize that such resources provide their reliability benefit in accordance with other limitations (e.g. MCC bucket limits) which appropriately balance their contribution to reliability with other less limited resources. To

then treat each resource identically in determining their ability to meet the must-offer obligation is a simplification that will have inappropriate market impacts.

In addition, SCE reiterates its comments made verbally as well as in writing to the initial straw proposal³ that at this time, a differential must offer obligation is premature. The CAISO should maintain a simplistic must offer obligation until it has experience, through practical application including consultation with SCs for flexible resources that choose to self-schedule rather than bid, in order to determine the appropriate changes that need to be made either to the energy markets or to a more stringent must offer obligation if necessary. Until that time, the inclusion of more restrictive must offer obligations will lead to market uncertainty with no clear operational improvement.

Section 6.5.3 Overlap of flexible and system RA capacity and 6.7 Availability incentive Price

Within this section, the CAISO describes how the availability incentive mechanism will apply to a resource that provides both system/local and flexible RA from the same MW. The proposal would have adherence to the flex RA must offer take priority over the system/local must offer. While SCE appreciates the effort to ensure that a resource is provided incentive (cost for failure to provide beyond the tolerance band or revenue for performing above the tolerance band) once and not double counted, it is not clear that this mechanism is free from fault. For this reason, SCE would like for the CAISO to work with Stakeholders to identify as many other mechanisms as possible to evaluate each on their ability to 1) provide for reliability, 2) avoid double payment/charge, 3) minimize impacts to market values of RA, and 4) account for operational and administrative simplicity.

As mentioned earlier in these comments, there is no difference in the reliability value of meeting peak load need versus meeting ramping need. The failure to meet either can have dire consequences. Given that framework, to then attribute a higher priority to meeting one must offer obligation over the other is contradictory to meeting the two distinct objectives.

For this reason, SCE would encourage the CAISO to consider in addition to this proposal, utilizing a system of derating NQC and EFC for future years. This method would remove the AIM cost/revenue and instead replace it with a potential for a future derate in capacity. A threshold could be established that if not met would result in the EFC and/or NQC being reduced for future years. SCE notes that such a mechanism exists today for the NQC associated with intermittent generators. Such a mechanism would not need to guess at the value of the must-offer as it would have a direct impact on how much capacity could be sold which would have an impact on the value in accordance with the value of RA in the next LSE solicitation.

In establishing the level of AIM costs/revenues, it is important to consider the market implications of doing so. SCE believes that the mechanism should be set such that the resource is indifferent to the potential costs/revenues faced. That is, there should not be a mechanism that

³ Id at pp. 2 - 3

provides a resource incentive to choose one form of reliability over another (peak need over flex need or vice versa).

As noted above, SCE believes that there is still a considerable amount of discussion that should occur in order to settle on an appropriate mechanism. In fact, while SCE has offered a different potential mechanism, SCE is not at this time recommending such a mechanism. Rather, SCE is pointing out that there are alternative mechanisms that should be examined prior to making a final determination. SCE looks forward to continuing the debate on this topic.

6.15 Availability incentive mechanism payments

SCE appreciates the change in proposal in this section that provides for a cap on incentive payments and institutes a roll-over account which is over funded at year end will be distributed to load. SCE has commented verbally during stakeholder discussion on this topic that while the costs and revenues of this program are directed to the SC of the resource, there is still an implication to load. That implication is that if the resources fail to perform and the CAISO must CPM to ensure grid reliability, such costs will be paid by load. In such circumstances, it is equitable then that AIM costs in excess of AIM revenues be allocated to load to offset for potential reliability costs.

Sections 8 Planned outage proposal for implementation for 2016 RA year and 9 Forced outage proposal for implementation for 2016 RA year

At its root, the proposals in these sections attempt to address how to maintain a portfolio of resources made available to the CAISO 45 days in advance of the operating month to meet multiple reliability constraints effective at meeting all of those constraints after the monthly showing and up to the operating day. SCE sees two options for doing so. The first is to evaluate the resources shown prior to the month and evaluate their effectiveness at addressing all reliability concerns (e.g. ramping, local need, peak need, etc.) and using that portfolio of resources as a hard baseline that sets the standard for replacement and substitution. Such a method necessarily leads to rules such as “like for like.”

Instead, the CAISO could use an alternate standard which would evaluate any replacement or substitution on the rules in place prior to the monthly showing. That is, if it would have complied at the time of the monthly showing, it should also be allowed for substitution or replacement. For example, suppose an entity had shown month-ahead a portfolio of 100% all hours (MCC bucket 4) resources. Prior to or during the operating month, one of those resources experiences an outage. Assume that the resource then shown as replacement or substitution is a 6X16 contract or MCC bucket 3. Assuming that the quantity does not exceed the limitation within that bucket, this replacement or substitution would be accepted by the CAISO. In return for being given greater latitude in replacement/substitution, the CAISO would have the same authority that it does at the time of the monthly showing. That is, if the portfolio of resources is not sufficient to meet the CAISOs reliability needs, then the CAISO can notify the market of a collective deficiency and if left unmet, can backstop to fill the need.

SCE is not at this time recommending one approach over the other. SCE simply raises these examples to illustrate the potential set of solutions. As a LSE, SCE is most concerned with its ability to predict outcomes. That is, SCE needs to be able to evaluate the likelihood that a given replacement/substitution will be acceptable to the CAISO and if not, the implications of such. SCE points to local as an example of a mechanism that while not completely prescriptive provides a reasonable amount of information to make prediction possible. That is, all entities are aware that the local mechanism utilizes effectiveness factors in determining whether the CAISO need has been met. Each LSE then knows the likelihood of the resources submitted in a monthly showing creating or avoiding a collective deficiency. With such a mechanism, a more restrictive replacement/substitution process can be acceptable as the entity knows how to address the risk. However, in flexibility space, it is not clear what will cause a collective deficiency and so it is more difficult to ensure that an entities portfolio will sufficiently mitigate the risks of a prescriptive replacement/substitution requirement.

SCE looks forward to examining and discussing alternative approaches in this regard.