

# Stakeholder Comments Template

## Subject: Reliability Services

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the Draft Straw Proposal for the Reliability Services initiative that was posted on June 5<sup>th</sup>, 2014. Upon completion of this template please submit it to [RSA@caiso.com](mailto:RSA@caiso.com). Submissions are requested by close of business on **June 26<sup>th</sup>, 2014**.

**Prior to responding to the specific sections that the CAISO has requested within the template, SCE generally notes that some elements deserve a higher level of consideration. That is, many of the proposals assume a problem or potential problem and then seek to resolve such. Given that flexible RA is still in its infancy and practical operational experience associated with what services resources will provide and what incentives already exist compared to what additional incentives will need to be developed, it may be premature to come to specific solutions at this time. SCE appreciates that the CAISO is in a difficult position in that after-the-fact review of actions taken are often seen as being more clear prior to the event than they actually were prior to the event. Therefore, not putting measures in place today runs the risk of being criticized for having missed an “obvious” deficiency. On the other hand, putting onerous requirements in place today not knowing the impacts they will have and whether such requirements were necessary to drive the desired result is also risky.**

**As will be seen in the comments below, there are areas in which SCE believes that the consequences of acting now in the face of a lack of information is potentially more damaging than gaining experience in the coming years and taking action when and as needed.**

1. Please provide feedback on Part 1: Minimum eligibility criteria and must-offer rules.
  - a. Comments on proposal portion of section
    - i. Eligibility criteria

**SCE does not believe that it is appropriate to qualify a resource for QC based upon its ability to provide REM. To date, the qualification of QC has been based upon the ability to meet peak load which is what the RA requirement is based upon. The CAISO has not allowed any other special product (e.g. Reserves, AGC, etc.) as a basis to qualify for QC to serve RA peak load needs. Rather, the CAISO has allowed use limited resources to qualify for QC based upon an analysis which precludes utilizing too many resources that can only produce energy for a limited duration. Currently, that requirement places the minimum duration at four hours of energy production. While SCE agrees that a shorter-duration may still yield a useable amount of capacity that can be used to serve peak load, it is not clear why that shorter duration is linked to the provision of REM.**

**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.**

ii. **Must-offer requirements**

**As mentioned in the opening summary to these comments, there are some elements for which a specific obligation may lead to unintended consequences in other realms that may not be warranted. In this case, a more burdensome must-offer obligation could potentially impact the prices paid for such resources. Without knowing first if the current energy markets serve as sufficient incentive to bid flexible resources or without considering other mechanisms, the cost for benefit is unknown. As for other mechanisms, perhaps it is possible to separate self-schedules into those provide from flexible resource and those provided from resources that were not shown to meet the Flex RA requirement. In such a case, if the CAISO were to run out of ramping capacity, then the CAISO would have a priority to order the dispatch of self-scheduled resources. In this case, the CAISO would dispatch resources claimed as meeting the Flex RA provisions first but would only do so if necessary to maintain grid reliability.**

**SCE therefore recommends that until the CAISO has had some experience with how resources are presenting their Flex RA resources to the CAISO, the must-offer obligation should simply remain as it is today. That is, the resource must be made available to the CAISO. If the CAISO then experiences a pattern of resources not making their**

**flexible attributes available, the CAISO could consult with the scheduling coordinator to ascertain the reason. Having this consultation will allow the CAISO to develop mechanisms that address the issues without being overly restrictive.**

- b. Comments on phase 2 consideration items
  - i. Intertie resources

**To the extent that intertie resources can provide flexibility to the CAISO grid, they should be counted toward meeting that need.**

- ii. Block dispatchable pumping load
  - iii. ISO dependence on MCC buckets

**SCE supports a re-examination of the use of MCC Buckets. SCE believes that part of the examination must include how the replacement and substitution process align with the MCC bucket of the resource being replaced or substituted.**

- c. Other comments

2. Please provide feedback on Part 2: Availability Incentive Mechanism.

- a. Comments on the general direction of the design

**Consistent with SCE's comments above on the must-offer obligation for Flex RA, SCE sees no need to change the current availability incentive mechanism. If we are not yet certain as to the need for a more stringent must-offer obligation nor the form necessary to address incentives while at the same time not being overly burdensome, there is no manner in which the availability incentive mechanism could be changed. Until there is more experience with the need for a specific must-offer obligation, including examination of why the energy markets are not sufficient to allocate resources, SCE recommends that no changes be made to the availability incentive mechanism.**

- b. Comments on design features
  - i. Bid-based assessment
  - ii. Fixed availability percentage band
  - iii. Single assessment for flexible and generic overlapping capacity
  - iv. Other features

**SCE believes that the proposal to make the mechanism completely self-funding has the potential for costs and revenues to become misaligned. In a situation in which a significant amount of RA resources become unavailable, the CAISO is likely to backstop procure. In practice, such backstop has had its costs allocated to load. Thus, the provision of a reliable grid was in part made available by the resources that performed their RA function and in part by load paying to make additional resources available. It is not clear then why all payments would accrue strictly to the RA resources that performed when that was not the only cost to providing for a reliable grid. If changes must be made to the Availability Incentive Mechanism, then SCE recommends that some form of revenue sharing be developed to offset the cost of backstop procurement to mitigate the impact to load.**

- c. Comments on price
  - d. Comments on capacity and resource exemptions
  - e. Other Comments
3. Please provide feedback on Part 3: Replacement and Substitution.
- a. Comments on scope
  - b. Comments on replacement and substitution issues
    - i. Complexity

**SCE believes that the replacement and substitution rules have become far too complex. In addition, they at times have come to create an RA requirement that is more stringent than the requirement was when the RA filing was due. That is, the requirement to provide a replacement with similar attributes to the one being replaced/substituted severely limits the population of resources that can be used for replacement/substitution. At the same time, other resources may be available that had they been shown at the time of the showing requirement would have been accepted but will not be in the replacement/substitution process because of this similar characteristic requirement.**

**For this reason, SCE advocates that any replacement/substitute should be evaluated on whether it would satisfy the RA requirement of the LSE that claimed the resource in the month-ahead process. If the replacement/substitute had been claimed at the time of the month-ahead filing and the CAISO would have accepted the filing as compliant, then the replacement/substitution should similarly be accepted.**

**SCE understands that doing so could result in a mix of resources that are not sufficient to meet the overall reliability need of the CAISO. In that case, the CAISO should have the authority, as it does in the month-ahead process, to perform backstop procurement for the collective deficiency.**

ii. CPM designation risk

**SCE has commented on this attribute previously. The mechanisms to ensure performance that have been selected place a great risk on the entity showing a resource for RA purposes. The failure to perform can be expensive and as such, utilizing resources that are in excess of the minimum requirement to serve as replacement or substitution serves as a meaningful hedge against non-performance costs.**

**While SCE does not at this time recommend any changes to the current set of rules that have caused this phenomena, SCE does advise that all incentives created by a set of rules should be evaluated before implementation.**

iii. Resource leaning

iv. Other issues

c. Comments on flexible replacement proposal

**SCE reiterates its comment from above that if the replacement resource would have met the month-ahead requirement, then it should be acceptable as a replacement as well. If the replacement causes a collective deficiency for the CAISO, the CAISO should have backstop authority.**

d. Comments on flexible substitution proposal

**SCE reiterates its comment from above that if the substitute resource would have met the month-ahead requirement, then it should be acceptable as a substitution as well. If the substitution causes a collective deficiency for the CAISO, the CAISO should have backstop authority.**

e. Other comments

4. Please provide feedback on Part 4: Capacity Procurement Mechanism.

a. Comments on index price

b. Comments on competitive solicitation process

**SCE supports further exploring the solicitation process (Option 2) and expects the proposal can be refined and implemented . As detailed below, the process will require market power mitigation. We support both the annual, monthly and intra-monthly use of solicited bids. However, we have several specific questions:**

- 1. Is bidding optional or mandatory?**
- 2. Do units submit separate bids for generic RA and flexible-RA or is there only a single bid?**
- 3. If a unit has already sold generic RA, is it still eligible to submit bids for flexible-RA**
- 4. If selected to provide a CPM contract, can the unit “refuse” the CPM as they can today? Is the contract mandatory but, if mitigated, can the unit file with FERC to receive a payment higher than the mitigated bid?**

c. Comments on other changes potentially needed to CPM

d. Comments on CPM price

e. Comments on supply-side market power mitigation measures

**Market power mitigation will be absolutely necessary for this process. We suggest the CAISO determine if mitigate is needed at the time of need based on a three pivotal supplier test. That is, if the CAISO has options to select a CPM contract and can satisfy all needs from more than three independent providers of capacity, no mitigation is necessary. However, if this is not the case the bids of all effective participating units need mitigation.**

**We suggest the CAISO start with the mitigation method already in use by PJM as part of their RPM capacity market. PJM mitigates bids based on an estimate of the unit’s going forward costs, with some exceptions for capital spend if it is necessary for the unit to be available in the delivery year. Details of the PJM mitigation process are found in their tariff, but in general the unit’s capacity bid is mitigated to variable costs that could be avoided if the unit did not participate (e.g. shut down) in the year of delivery. Treatment for energy rents should be discussed with stakeholder. This capacity price does not include capital recovery or debt service (with the exception noted above).**

<http://www.pjm.com/.../20110818-brattle-report-on-cost-of-new-entry-estimates>  
<http://www.pjm.com/~media/documents/agreements/tariff.ashx>

- f. Comments on demand-side market power mitigation measures
- g. Other comments