Southern California Edison
Stakeholder Comments

Reliability Service Initiative, December 10, 2014 Working Group

Submitted by	Company	Date Submitted
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Southern California Edison (SCE) appreciates the opportunity to comment on the California Independent System Operator's (CAISO) Working Group Presentation that was made on December 10, 2014. SCE's main comments, in summary, are:

- The RA AIM price should be a constant value and not increase if there is a CPM designation
- A mechanism should be put in place to verify the AIM penalty does not diverge too far from the average bilateral contract price.
- Exemptions related to Bid Insertion and RUC participation should, at least initially, extend to storage resources and other resources that currently have these exemptions.
- The CAISO should continue to work on creating an AIM penalty that is based on all of a generator's obligations and not just the strictest obligation.

The RA AIM price should be a constant value and not increase if there is a CPM designation

The purpose of the RA AIM mechanism is to provide incentives for generators to perform sufficient maintenance in order to keep their resource operational and avoid forced outages. At this time, SCE believes the proposal of 60% of the CPM soft offer cap, which results in a price of $3.79 / kW – month, is high enough to provide the correct incentives.

The proposal to increase the RA AIM price in the event of a CPM designation creates two large issues. First, having a higher price triggered by a CPM designation adds a luck factor into the incentive structure. The higher price would, in a sense, create a lottery with forced outages. If a generator is lucky enough to have a forced outage that does not align with other generators then it will be charged a lower price, however, if multiple generators happen to go out during the same time period then one or all of them will be charged a higher price (depending on how the mechanism is set up and which specific outage caused the CPM designation). In addition, SCE is not aware of any process currently in place or proposed that would enable a generator to ascertain when an outage will create the need for a CPM designation. As such, there is no way of evaluating the magnitude of penalty costs that could be expected by a generator in the event of an outage. By the nature of the RA AIM and what incentives it is supposed to provide, this lottery system incentive does not seem to improve the overall incentive structure to generators.

The second large issue is that this process will create increased administrative burden. There are a variety of questions that need to be answered in order to implement this process[1]. Additionally, depending on the process implemented there may be complexities involved every time a CPM designation is issued, such as determining what generator(s) triggered the CPM designation, how long the designation and the higher price should last, and how to account for generation that triggered a CPM but did not go outside of their RA AIM error band. Since the previous AIM proposal of $3.79 / kW – month provides the correct incentives to generators, it does not make sense to add on this level of complexity in order to create a lottery system that does not improve the incentive structure as a whole.

A mechanism should be put in place to verify the AIM penalty does not diverge too far from the average bilateral contract price

SCE does not have any concerns at this time with the proposal to tie the RA AIM price to the CPM soft offer cap price. SCE would, however, like the CAISO to add a review process that verifies the RA AIM price does not diverge too far from its intended target which is "slightly higher than the average bilateral contract price." A simple review process could be to verify that the RA AIM price is within 20%[2] of the most recent weighted average RA price reported by the

[1] See slide 14 of the 12/10/2014 RSI Working Group Presentation
[2] The 2012 report shows a weighted average price of $3.42 / kw-MW. A 20% range would mean that the RA AIM price could be between $2.74 or $4.10 / kW – month before review is needed.

CPUC[3]. If the RA AIM price falls outside of this range then the tie between the RA AIM price and the CPM soft offer cap price should be revisited.

Exemptions related to Bid Insertion and RUC participation should, at least initially, extend to storage resources and other resources that currently have these exemptions

SCE is not currently aware of any specific issues that could arise if the Use Limited Resource definition changes and some resources lose exemptions that are currently in place. However, given the short time frame this issue has been in discussion in the RSI forum[4], SCE would encourage CAISO to keep exemptions related to Bid Insertion and RUC participation for all generators that currently have exemptions until an adequate discussion can take place.

In addition to the overall comment above, SCE believes storage specifically should continue to have exemptions in place related to Bid Insertion and RUC participation. The types of storage being developed and specific market changes for storage are still very much uncertain. Addressing removing exemptions for storage should be done once the landscape becomes more certain.

The CAISO should continue to work on creating an AIM penalty that is based on all of a generator's obligations and not just the strictest obligation

There are a variety of complex and competing factors surrounding the creation of a new AIM penalty. First is the desire to have only a single price that avoids the need to define the reliability benefits of system capacity and flexibility capacity separately (and the current proposal achieves this by having only one price). Second is the desire to have the AIM penalty reflect that both system capacity and flexible capacity provide necessary reliability benefits to the system[5]. The current CAISO proposal will charge the full AIM penalty to a generator that is obligated to fulfill a system and flexible must offer obligation when the generator fulfills the system obligations but not the flexible obligation. This incentive structure diverges from the

[3] SCE proposes this specific review process as an example. Other review process ideas should be discussed and considered.
[4] The changes were presented once before to SCE's knowledge, during the 11/12/2014 Commitment Costs Enhancements Phase 2 Call, and SCE is not sure all possible issues of this change have been identified by stakeholders and discussed.
[5] That is, if the system is short of either capacity type reliability problems will occur.

belief that both system and flexible capacity are needed since the penalty structure is only concerned with strictest capacity requirements at any given time. SCE appreciates that this is a complex issue and that the final AIM proposal will have to be a compromise between these competing objectives. SCE hopes a middle ground can be developed that satisfies the two goals discussed above.