

Comments of Southern California Edison Company on Alternative Options for the Availability Standard and Replacement Rule Components of the Standard Capacity Product II Initiative

Submitted by	Company	Date Submitted
William V. Walsh William.V.Walsh@sce.com (626) 302-4531	Southern California Edison Company	April 1, 2010

Southern California Edison Company (“SCE”) has reviewed the California Independent System Operator’s (“CAISO’s”) Alternative Options for the Availability Standard and Replacement Rule Components of the Standard Capacity Product (“SCP”) II Initiative dated March 18, 2010 (“Alternative Options Proposal”). In response, SCE provides the following comments:

- The CAISO should not file its replacement obligation for planned outages with the Federal Energy Regulatory Commission (“FERC”) unless the California Public Utilities Commission (“CPUC”) eliminates its current rule prohibiting load-serving entities (“LSEs”) from counting resource adequacy (“RA”) resources on a planned outage towards RA compliance, and elects not to replace it with another alternative such as SCE’s proposal of adding a planned outage adder (“POA”) to LSES’ RA requirement.
- The CAISO should not adopt any of the proposals that place the obligation to replace capacity on a planned outage on the RA supplier. Instead, the CAISO should support the development of SCE’s POA proposal.
- SCE supports the version of the CAISO’s proposal for resources whose Net Qualifying Capacity (“NQC”) is based on historical data (“H-NQC”) that considers actual energy deliveries in determining the availability calculations for wind, solar, and Qualifying Facility (“QF”) RA resources.
- Legacy (*i.e.* those signed before June 28, 2009) H-NQC QF contracts do not provide a mechanism for Scheduling Coordinators (“SCs”) to compel the reporting of outage information. The CAISO should explicitly, and formally, recognize that the SCs for these resources should not face any consequences for failure to provide this data.

The CAISO Should Not File A Replacement Obligation Proposal with FERC Unless The CPUC Eliminates Its Planned Outage RA Counting Rule and Does Not Adopt an Alternative Such As SCE's POA Proposal

In its Draft Final Proposal on SCP II, dated February 19, 2010, the CAISO stated, “[i]n response to the expectation that the CPUC will eliminate the replacement rule that applies to its jurisdictional load-serving entities, the ISO’s draft final proposal to address planned outages of RA resources is to implement a replacement obligation on suppliers of RA capacity in the ISO tariff.”¹ At the March 24 workshop, however, the CAISO indicated that it had not yet made the determination as to whether it would go forward with its “supplier-replace” proposal if the CPUC opted to retain its planned outage counting rule. The CAISO’s comments at the workshop are a source of significant concern for SCE for several reasons.

First, creating a “supplier-replace” obligation along with maintaining the CPUC’s planned outage counting rule will not work from a practical standpoint. If the CPUC keeps its planned outage counting rule, then LSEs will not include those resources on a planned outage longer than a week on their supply plan. If these resources are not on the supply plan, the CAISO will have no ability to determine whether it is an RA resource, and, ultimately, whether it is required to replace its capacity.

Second, this additional replacement obligation is unnecessary. To date, the CPUC’s current approach has ensured that adequate capacity is available to the CAISO during those months that units typically take their planned outages. Indeed, the CPUC designed its planned outage rule to account for these “missing” units. The CAISO has not proven, much less alleged, the need for an additional replacement obligation to ensure grid reliability during these periods.

Third, having duplicative replacement rules could result in additional and unnecessary expense. Currently, LSEs demonstrate their month-ahead 115% RA compliance through available resources (*i.e.*, that are not on planned outages).² Under the CAISO’s Alternative Options Proposal, those units that LSEs exclude from their supply plans due to planned outages will be replaced. This additional capacity will unnecessarily increase RA capacity and increase LSE customer costs.

Finally, the CAISO’s proposal will not improve SCP fungibility (the main goal this change seeks to resolve) as the CPUC’s planned outage rule will still require LSEs to track when and how long RA resources will take planned outages.

For these reasons, SCE recommends that the CAISO not implement a replacement obligation through its tariff unless and until the CPUC eliminates its current planned outage rule without a comparably reliable mechanism such as SCE’s POA proposal.

¹ Draft Final Proposal at 13.

² Under the CPUC’s rule, only those units that are on a planned outage longer than a certain duration are prohibited from being counted towards RA compliance.

The CAISO Should Not Adopt The Alternative Options Proposal That Places The Obligation To Replace Capacity On A Planned Outage On The RA Supplier

Despite additional modifications to the CAISO's supplier-replace proposal, SCE believes that it still lacks implementation detail, and will result in additional costs without additional benefit. Indeed, the CAISO's Alternative Options Proposal is very similar to the original Straw Proposal, and suffers from many of the shortcomings of that proposal, including the extension of replacement obligations that go beyond the current CPUC rule that the proposal seeks to replace.

For example, under the current CPUC rule, replacement of "system" capacity suffices for both "local" and "system" capacity on planned outage. However, the CAISO's Alternative Options Proposal still contemplates that a local resource may have to replace its units with other local capacity or face the possibility that the CAISO will deny their outage request or charge them for backstop procurement.

In addition, the CAISO's Alternative Options Proposal may result in increased costs because generators may choose not to sell a portion of their supply in order to account for their replacement obligation, or increase the cost of capacity in order to "price-in" the replacement obligation. Also, the cost of capacity may increase simply because of increased transaction costs associated with generators having to replace.

Furthermore, the CAISO's Alternative Options Proposal does not allow for the "grandfathering" of existing contracts. Under the CAISO's proposal, the RA supplier (*i.e.*, the SC) is responsible for any ICPM charges for failure to replace a unit on a planned outage. SCs, however, might not have any ability to pass these costs on to the generators. Thus, if the CAISO still intends to adopt a generator replacement obligation, it must create an exemption from this obligation for those contracts entered into before the establishment of such a rule. Without such an exemption, the CAISO's Alternative Options Proposal will expose SCs to significant planned outage risk they have no control over. Moreover, when parties originally entered into these agreements, they relied on the contemporary regulatory construct in the allocation of risks under these agreements. It would be fundamentally unfair to unilaterally shift these risks, on either party, for these contracts.

Finally, the CAISO's Alternative Options Proposal indicates that many of the issues regarding timing and the allocation of backstop procurement costs still need to be resolved. SCE notes that these issues are critical to developing a supplier-replace proposal and proved difficult to solve in the Straw Proposal. Without a clear and equitable resolution of these issues, the CAISO cannot go forward with any supplier-replace proposal.

In its comments on the Phase 1 Workshop Issues in the CPUC's RA proceeding (Rulemaking 09-10-032), the CAISO indicated support for continuing the current CPUC planned outage counting rule until an appropriate replacement rule can be developed.³ SCE agrees with the

³ See CAISO's Comments to Phase I Issues at 9-10 ("The ISO also believes that the CPUC and the parties should be afforded additional time to consider the ISO and SCE proposals, and any other suggested approaches, and potentially reach a consensus on an appropriate successor measure. Accordingly, the ISO recommends that the CPUC leave the existing replacement rule in effect while that collaborative process occurs.").

CAISO's approach and believes that, in order to fully analyze each of the proposals currently under consideration, the CAISO should not proceed with implementing its proposal at this time. Instead, the CAISO should continue to work with the CPUC and other stakeholders to find an appropriate replacement. To that end, it would be helpful if the CAISO could provide historical planned outage data that would be used to calculate the POA as part of SCE's POA proposal. This additional information will help stakeholders realize the magnitude of SCE's proposal, and determine whether the CPUC and CAISO should move forward with such an approach.

SCE Supports Considering Actual Energy Deliveries In Determining The Availability Calculations For Wind, Solar, And QF RA Resources

In its Alternative Options Proposal, the CAISO proposes to consider actual energy deliveries in determining the availability of wind, solar, and QF RA resources during periods of partial forced outages, rather than using a straight proportional derate of the NQC value for these resources. SCE supports this approach as fair and equitable.

Current Contracts Do Not Require H-NQC QFs to Supply Outage Data

The Alternative Options Proposal still does not address how third-party SCs will be able to compel H-NQC resources operating under legacy QF contracts to provide outage data. SCE urges the CAISO to explicitly state that the SCs for these resources will not face any consequences for failure to provide this data. While SCE still commits to best efforts in soliciting this data from QFs in its portfolio, SCE urges the CAISO to consider the ramifications of this issue when determining whether to aggregate this data (and its potential for unreliability) with other data in calculating future availability standards.