

**Comments of Southern California Edison Company on CAISO
2nd Draft Final Proposal - Standard Resource Adequacy Capacity Product**

Submitted by	Company	Date Submitted
Michael Backstrom michael.backstrom@sce.com (626) 302-6944	Southern California Edison Company	March 6, 2009

Southern California Edison Company (“SCE”) provides these comments on the California Independent System Operator’s (“CAISO’s”) 2nd Draft Final Proposal - Standard Resource Adequacy Capacity Product, issued February 27, 2009 (“Second Draft Final Proposal”). SCE appreciates this opportunity to comment on the Second Draft Final Proposal, which substantially improves upon the previous draft of the proposal. However, as discussed below, certain clarifications to the proposal are needed before it is ready for CAISO Board approval and submission of Standard Capacity Product (“SCP”) tariff provisions to FERC.

SCE also remains concerned that the CAISO’s proposed grandfathering provisions place undue procurement risks on LSEs for contracts that are signed between January 1, 2009 and FERC approval of the SCP proposal as well as DWR contracts that, pursuant to State policy, could be transferred to the IOUs. Thus, SCE strongly urges the CAISO to modify the grandfathering provisions in the Second Draft Final Proposal to appropriately address these issues.

SCE provides the following comments:

- The CAISO’s proposed grandfathering provisions should extend to all contracts executed prior to FERC approval of the SCP. Limiting grandfathering to contracts executed prior to January 1, 2009 fails to account for a potentially significant period of time during which LSEs may need to procure capacity to meet resource adequacy (“RA”) obligations, without knowing what SCP tariff provisions will be ultimately approved by FERC. Additionally, grandfathering should explicitly apply to California Department of Water Resources (“DWR”) power contracts for the original life and MW quantity of those contracts. To do otherwise could significantly undermine the California Public Utilities Commission’s (“CPUC’s”) goal of expediting the removal of DWR from its role as power supplier through novation of the

DWR Contracts to the three Investor-Owned Utilities in accordance with CPUC Decision (“D.”)08-11-056.

- Concerning RA imports, SCE urges the CAISO to revise its proposal to ensure that path or group derates are appropriately counted against the RA import resource’s availability. It should be incumbent on the LSE counting the RA import to secure the necessary transmission rights to get the capacity to the CAISO border.
- The CAISO should consider using the two full years of historical performance data that will be available to determine the availability standard for compliance year 2010 - if the SCP is approved for use by then - rather than the proposed two and a half years of data.
- The CAISO should clarify that a forced outage that results in the CAISO having to invoke backstop procurement should not be converted to a “scheduled” outage after 72 hours, but should continue to count as a forced outage.
- Hydro resources should be subject to the same Ancillary Services Must Offer Obligation (“A/S MOO”) as other resources. The CAISO should modify the language of this provision to state “will” submit, rather than “should” submit.
- The CAISO should specify that it will conduct a future stakeholder process and develop sufficient transition/grandfathering provisions regarding availability and performance standards applicable to wind, solar, demand response and qualifying facility (“QF”) resources that are being temporarily exempted from these standards in the initial SCP tariff.
- Discrepancies and errors still exist throughout the Second Draft Final Proposal that appear to be caused simply by oversights during the CAISO’s revision process. SCE recommends that the CAISO staff review the proposal to ensure clarity and consistency within and among the various provisions.

I. Transitioning Provisions

SCE remains concerned that the Second Draft Final Proposal’s proposed grandfathering provisions still do not appropriately address: (1) contracts executed between January 1, 2009 and prior to FERC’s approval of this SCP, and (2) the DWR contracts executed during the 2000-2001 California energy crisis. Consequently, SCE customers are placed at risk for significant cost increases. In addition, the Second Draft Final Proposal’s provisions for novated agreements has the potential to undermine the CPUC’s goals with respect to novating or transferring the DWR contracts to the three

IOUs because the provisions do not allow for any modification of the contracts in connection with a novation.

Thus, SCE urges the CAISO to modify the Second Draft Final Proposal's grandfathering provisions as described below.

A. Contracts Executed Prior to FERC Approval of the SCP Tariff

SCE has repeatedly urged the CAISO during this stakeholder process to extend grandfathering to all existing RA contracts executed prior to final FERC approval of the SCP tariff provisions. SCE reiterates that position here. Limiting grandfathering to contracts executed prior to January 1, 2009, as the Second Final Draft Proposal would do, fails to account for a potentially significant period of time during which LSEs may need to procure capacity to meet RA obligations, without knowing what SCP tariff provisions will be ultimately approved by FERC. Although the CAISO currently intends to submit its proposed SCP tariff provisions to FERC in April 2009, FERC may not issue a final ruling for many months, potentially extending beyond the time when LSEs would find it commercially prudent to contract in order to meet the CPUC's October 2009 deadline for 2010 year-ahead RA compliance filings. Moreover, FERC's final ruling on the SCP could involve substantive changes to the tariff language proposed by the CAISO. LSEs (and generators) do not have upfront certainty as to the SCP tariff language that FERC will approve. Indeed, the CAISO's SCP proposal itself has substantively changed more than once since January 1, 2009. Therefore, SCE urges the CAISO to grandfather all contracts executed prior to FERC approval. This grandfathering approach will protect LSEs and their customers from incurring increased procurement costs to comply with SCP requirements that are not ultimately adopted by FERC.

B. DWR Power Contracts

The CPUC contemplates that the DWR contracts (executed during the California energy crisis, pursuant to Legislative Assembly Bill 1X) will be novated, assigned, or substituted with replacement agreements by the IOUs by January 2010. However, to date, none of the DWR contracts have been transferred or replaced. The CAISO proposes to accept novations "as long as they do not change the initial term of the contract or the amount of MW of RA capacity."¹ SCE appreciates the CAISO's attempt to provide grandfathering for the DWR contracts with respect to the original term and MW values of the contract, as SCE recommended in its February 20, 2009 comments on the SCP White Paper. However, the provision included in the Second Draft Final Proposal does not go far enough in affording an exemption to those DWR contracts that may be novated or otherwise substituted with replacement agreements with the IOUs.

¹ Second Draft Final Proposal, at 33.

It is very unlikely that the DWR contracts will be novated on exactly the same terms as the original contracts, so this exemption provides only limited protection. Under the current language of the Second Draft Final Proposal, if a novated or replaced DWR contract extended the life of the contract for any period of time, the contract would not be grandfathered at all, not even *up to* the life and MW values from the original contract. Without that exemption, it is a virtual certainty that additional costs will be incurred in order to include provisions in the replacement contracts to meet the new SCP availability standards and performance incentives. However, D.08-11-056 requires that “the resulting ‘Replacement Agreement’ must, at a minimum be at least as beneficial for ratepayers as the existing contract.”² Thus, the current novation-related language in the Second Draft Final Proposal could create a scenario where very few of these contracts get novated to the IOUs or that novated contracts become ineligible for RA credit, thereby undermining the CPUC’s stated goal of completing the process by January 1, 2010 while maintaining RA eligibility for the novated or substituted contracts.

Thus, SCE urges the CAISO to explicitly extend the SCP grandfathering provisions to all of the DWR contracts, by relating any transferred or replaced agreements back to the existing DWR contracts that were executed prior to the grandfathering cut-off date. SCE recognizes, however, that the renegotiated contracts could include extensions to the current duration of the DWR contracts and/or changes in the amount of capacity provided. It would be inappropriate to allow grandfathering for the “new” time period of the renegotiated agreement or increased amounts of capacity. Thus, SCE requests only that the availability/performance incentive grandfathering for renegotiated DWR contracts apply to the original life and MW quantity of those contracts in place at the time of the grandfathering cut-off. SCE proposes the following statement be included in the final proposal:

Novations or replacement agreements for DWR contracts will be exempted from the availability and performance incentive provisions of the SCP tariff, for the duration and MW quantity of the contracts that were in place as of the cut-off date for SCP grandfathering adopted by FERC for all other contracts.

SCE would not oppose the CAISO granting the same exemption to novated contracts other than the DWR contracts, if the CAISO deems such treatment to be appropriate.

² D.08-11-056, p.73.

II. RA imports

SCE is concerned with the CAISO's proposal regarding RA imports that states "[i]f there is a path or branch group derate during a month it will not be counted against the non-resource-specific RA import resource's availability in that month."³ SCE believes that it is the RA import owner's obligation to procure sufficient transmission rights to be able to successfully import the capacity to the CAISO system. Failure to do so should not allow the RA import owner to avoid penalties while potentially subjecting the rest of the market to backstop procurement costs. The RA import (whether resource-specific or not) should be required to secure sufficient transmission rights to wheel the capacity to the CAISO border. If for any reason the CAISO does not accept the import schedule (at the point where the import reaches the CAISO border) due to the congestion associated with the CAISO's IFM, then the Scheduling Coordinator ("SC") for that scheduled resource should be deemed to have met its availability obligation and should not face charges. If, on the other hand, the schedule is curtailed at some point while the import is being wheeled to the border, then the SC for the import should face unavailability charges to the extent of the curtailment.

III. Use of Historical Data to Calculate Availability

According to the Second Draft Final Proposal:

[T]he formula for the target availability value will use monthly data over three years. However, in the first year of SCP (compliance year 2010) three full years of historical data will not be available for all months because the RA program did not start until June 2006 (only 2007 and 2008 have a full 12 months of data). The calculation will be run using data from June 2006 through December 2006, i.e., those months will have the benefit of three full years of monthly data.⁴

However, under the CAISO's proposal, it unclear how monthly target availability will be established for January-May. SCE recommends that the CAISO use the most recent historical whole-year data, for a period of up to three years. In the event that the appropriate FERC and CPUC approvals are in place for the 2010 compliance year to use the SCP, and there are only two years of whole-year data to perform the availability calculation, then the first year calculation should be based on two year's worth of data to ensure that the target availability in each month is based on the same historical period. Beginning in the 2011 compliance year and going forward, target availability can consistently be based on three years of historical data.

³ Second Draft Final Proposal, at 29. The same proposal is extended to resource-specific RA imports. *Id.*, at n. 22.

⁴ *Id.*, at 14.

IV. Forced Outages

SCE appreciates the CAISO's clarification regarding how "forced outages" will be classified. However, SCE believes the CAISO should go one step further in its clarification. The Second Draft Final Proposal states:

There are two ways that an Outage can be classified as a Forced Outage:

- If the Outage is not submitted three days or more in advance of an Outage that Outage is considered to be a Forced Outage. In other words, there is a timeline basis to determining whether an Outage is a Forced Outage or not a Forced Outage.
- A resource might request an Outage three days or more in advance of a requested Outage, but, if the ISO does not approve the Outage (this could occur if system conditions will not allow the ISO to reliably operate the system if the Outage were to be taken) then, if the resource goes out on an Outage less than 72 hours in advance of the Outage, that Outage is classified as a Forced Outage.⁵

With respect to the second bullet above, SCE requests that the CAISO include a provision stating that a forced outage that would otherwise convert to a scheduled outage after 72 hours will remain a forced outage *if the outage causes the CAISO to incur backstop procurement costs*. Units on a forced outage when sufficient excess capacity is available during non-peak months can and should be converted to a scheduled outage after 72 hours to avoid additional non-availability charges. However, during peak months, when the lack of capacity due to a forced outage causes the CAISO to invoke its backstop procurement mechanism, it would be unfair to shift that cost burden to the market at large. Instead, the unit should be required to maintain its forced outage status until the unit is again operational. The unit owner would still have the option of substituting another unit to avoid further non-availability charges beyond the first 72 hours after the unit is forced out of service, in accordance with the unit substitution provisions of the Second Draft Final Proposal.

V. A/S MOO for Hydro Units

The Second Draft Final Proposal states that "[d]ue to various restrictions of operating conditions, hydro RA resources that offer energy bids *should* submit AS bids, together with their energy bids, in the day-ahead market for all their available AS

⁵ *Id.*, at 17.

capacity based on the expected available energy.”⁶ SCE urges the CAISO to clarify this provision by changing the language to specify “...hydro RA resources that offer energy bids *will* submit AS bids, together with their energy bids...”

Hydro resources should be subject to the same A/S MOO as other resources, and this modification will ensure hydro resource compliance with the A/S MOO requirement.

VI. Stakeholder Process for Wind, Solar, QF and Demand Response Resources

The CAISO proposes that the availability standard and incentives of the SCP initially will not apply to RA resources including wind, solar, QF and demand response (“DR”) resources. However, the deferral of SCP provisions for these types of RA resources is temporary, and in the future the CAISO intends to revisit the applicability of the provisions.⁷

SCE assumes that revisiting SCP applicability to these additional resources will be accomplished through a new stakeholder process. The Second Draft Final Proposal, however, fails to mention whether or not there will be a stakeholder process to develop availability and performance standards for wind, solar, QF, and DR resources. In addition, a transition period will be needed for these types of resources to shift to the new SCP standards, if and when, any are ultimately developed for these types of resources.

In verbal discussions at the workshops and meetings, the CAISO has indicated that there will be a stakeholder process to determine availability and performance standards and transitioning. SCE urges the CAISO to expressly state in the final SCP proposal that there will be a subsequent stakeholder process to address, among other things, availability and performance standards for wind, solar, QF, and DR resources, as well as appropriate transition provisions for pre-existing contracts involving such resources.

VII. Discrepancies in the Document

SCE has observed a number of minor errors and discrepancies in the Second Draft Final Proposal document, most likely attributable to the numerous modifications made to the CAISO proposal over the last three months. Prior to submitting the Second Draft Final Proposal to the CAISO Board for approval and developing SCP tariff provisions based on the document approved by the CAISO Board, SCE recommends that CAISO staff perform an extensive review of the document to eliminate inconsistencies and/or outdated references.

⁶ *Id.*, at 9 (emphasis added).

⁷ *Id.*, at 28.

For example, SCE has identified the following discrepancies requiring correction:

- On pages 32 and 33, there are still references to the term “penalty” that should be modified to “non-availability charge.”
- On pages 14 and 15, the text is somewhat contradictory in discussing which resources will be included in the availability target calculation: Page 14 states: “Resources that are not subject to the availability standard and incentives because applicability has been deferred, or resources that have been exempted from the provisions, will not be included in the calculation.” This seems to indicate no exceptions, but on page 15, the Second Draft Final Proposal provides for an exception: “The target availability value will be calculated using an RA fleet that includes RA resources that have been grandfathered so that there are ample RA resources in the calculation (if we exclude grandfathered RA resources, then the RA fleet may be only a few hundred RA resources and not comparable to the 600-resource RA fleet that is currently supplying RA capacity).” SCE recommends that to tie these two provisions together and avoid confusion, that the text on page 14 include a caveat that states “except in the case of grandfathered contracts.”
- On page 30, in the fourth paragraph, when discussing the different approach to be used for non-resource specific RA imports, the document states, “The ISO proposes to use three times the non-availability charge rate that is charged to non-resource-specific RA resources that fail to meet the target availability as the maximum rate to pay the non-resource-specific RA resources that *exceed the target availability*” (emphasis added). However, given that the target availability for these types of resources is 100%, this is not a practical approach. Instead, the CAISO should state (as it does elsewhere in the document) that all of the units that achieve 100% of the target availability will receive a share of the non-availability charge funds for that month, to the extent there are any.
- On page 34, the numerical examples are still incorrect. The calculation indicates that the result of dividing $100\text{MW}/300\text{MW} = 25\%$. Clearly this is an error. $100\text{MW}/300\text{MW}$ would yield roughly 33%. Additionally, the second example states that $600 - 200 = 600$.

These are the errors that SCE identified in its review of the document, but others may exist. SCE thus recommends that the CAISO staff thoroughly review the Second Draft Final Proposal and correct these minor errors/discrepancies prior to final submission of the proposal to the CAISO Board.

VIII. Conclusion

SCE appreciates the time and effort of the CAISO and other stakeholders to develop the Second Draft Final Proposal. However, SCE urges the CAISO to reconsider

its transition proposal to extend the grandfathering provisions to contracts executed prior to FERC approval of the SCP tariff provisions and to the current life and MW quantity of the DWR contracts regardless of the date they ultimately transfer (if at all) to the IOUs. SCE also recommends that the CAISO implement the modifications to other aspects of the Second Draft Final Proposal discussed above and review the document for clarity and consistency.