

**SDG&E COMMENTS ON STANDARD CAPACITY PRODUCT II ISSUE PAPER
(December 18, 2009)**

SDG&E requests the CAISO to consider the following comments in finalizing the Standard Capacity Product II (SCP) proposal that was described in the CAISO's December 4, 2009 issue paper. This SCP proposal was also discussed during a December 9 Prehearing Conference in the CPUC's Resource Adequacy (RA) proceeding and at the CPUC's December 14 workshop on SCP. These meetings revealed that there is general support for the concept of a standard capacity product, but that stakeholders are deeply divided about implementation and timing issues. In particular, there is no consensus about how and when to apply the provisions of the SCP tariff to several classes of supply resources that are currently exempted. SDG&E supports the CAISO's efforts to complete the work outlined in the December 4 SCP proposal, and offers comments designed to move the process along as quickly as possible given the limited resources that can be brought to bear and the need for close coordination with the CPUC's RA program.

First, SDG&E supports ending quickly the temporary exemptions for those supply resources that have their qualified capacity (QC) determined by using a formula based on historical output. The QC values for these resources (solar, wind, and non-dispatchable cogeneration, biomass, and geothermal facilities) currently include "forced" outages in the historical output data. Given that the availability provisions of the SCP tariff are designed to penalize forced outages (and reward high availability), a double forced outage penalty could result if the forced outage data is not stripped from the historical output data before these resources are made subject to the SCP tariff. SDG&E believes the historical output data can, and should, be adjusted quickly so that the temporary SCP exemptions for these types of resources

can be ended before the 2011 RA demonstrations are submitted by load-serving entities. As directed by FERC, the CAISO should work closely with stakeholders and the CPUC so that the CPUC can address removal of these temporary exemptions in its June 2010 decision in Phase 1 of the RA proceeding just now getting underway.

The CAISO already has much of the forced outage data in its SLIC records, and therefore should be responsible for providing proposed forced outage adjustments to the historical output data for each resource. In some cases, where scheduling coordinators were not required to submit forced outage data to the CAISO, scheduling coordinators should be allowed an opportunity to submit the missing forced outage data for review by the CAISO. Once the forced outage data has been adequately captured and removed from the historical output data, the QC for each affected resource should be re-calculated and the resource then subjected to the provisions of the SCP tariff for the 2011 RA compliance year. SDG&E believes that all of this work, including obtaining the necessary regulatory approvals from FERC and the CPUC, can be accomplished in time to be useful for the 2011 RA compliance year.

Also, with respect to these types of resources, SDG&E requests that the CAISO more clearly define the SCP rules pertaining to unit substitution and forced outages in the SCP tariff or Business Practice Manual. There was a comment at the CPUC workshop to the effect that substitutions could only be between like resources, such as wind for wind or solar for solar. Conversely, SDG&E understands the SCP tariff as permitting substitutions with any recognized capacity resource that meets the locational requirements of the original resource. Similarly, the workshop comments suggest there may be some confusion about how forced outages are defined. The SCP tariff would benefit if the definitions of both unit substitution and forced outage were further clarified.

Second, SDG&E shares the state and federal regulatory goal of increasing the presence of demand response resources in the wholesale market. California stakeholders are addressing integration of demand response resources in the CPUC's direct participation proceeding, and in the CAISO's proxy demand resource implementation initiative. In addition, counting and allocating of demand response resources are being addressed in the current phase of the CPUC's resource adequacy program. Each of these proceedings is driving with a sense of urgency toward the goal of optimizing the use of demand response resources in the wholesale electricity markets, but clear policies have yet to emerge. Consequently, SDG&E believes that the CAISO should defer for now its effort to apply the SCP tariff to demand response resources. Once the current demand response proceedings have concluded, then it would be timely to amend the SCP tariff to include demand response resources. Meanwhile, the CAISO should continue participating in the CPUC proceedings that are dealing with demand response issues in order to ensure that the new demand response products emerging from those proceedings are compatible with the requirements of the SCP tariff.

Third, SDG&E believes that an additional change in the SCP tariff may be necessary in order for the SCP tariff to reach its stated goals. The availability requirements for resources in local areas may be overly-punitive considering the limited opportunities and benefits that may exist by replacing a local unit that has suffered a forced outage. The local resource adequacy requirements are set on the annual peak load in the local area, not the monthly peak loads used to establish system resource adequacy requirements, so in the non-peak months the demonstrated local capacity can greatly exceed the load that must be served by local capacity after accounting for imports. Moreover, frequently all, or virtually all, of the existing local capacity has already been procured to meet the annual local peak load requirements, leaving few if any resources

available to be procured to cover a forced outage. Under these circumstances – off-peak local load conditions and no additional capacity available in the local area – SDG&E believes that the SCP availability penalties should be waived. Additional capacity to cover the forced outage is not really needed to serve the reduced local load and, in any event, it is impossible to procure such capacity. The SCP availability requirements should be designed to produce financial incentives for market participants to act prudently and efficiently, not for punishing market participants for not doing the impossible.

To further assist the unit substitution process when such substitution is desirable and physically possible, SDG&E believes the CAISO should assemble and maintain a list of available resources not currently being used to meet resource adequacy requirements so that market participants can easily find resources for unit substitution. This will help improve the Yearly Availability Standard Metric and thus result in fewer availability penalties being assessed by the CAISO.

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Respectfully submitted,

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