

Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Fourth Revised Straw Proposal, Posted November 7, 2013

Submitted by	Company	Date Submitted
Randall Nicholson Nuo Tang	San Diego Gas & Electric	Dec 2, 2013

This template is for submission of stakeholder comments on the topics listed below, covered in the Flexible Resource Adequacy Criteria and Must-Offer Obligation fourth revised straw proposal on November 7, 2013, and issues discussed during the stakeholder meeting on November 13, 2013.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to fcg@caiso.com no later than the close of business on November 27, 2013.

SDG&E appreciates the opportunity to comment on the Flexible Resource Adequacy Criteria and Must-Offer Obligation Fourth Revised Straw Proposal issued on November 7, 2013. As a general observation, SDG&E is concerned that the proposed structure has become unwieldy, and is quickly trending towards becoming unworkable. Given the complexity and divergent opinions on critical, core components, SDG&E has difficulty envisioning a path forward that ends in anything other than a protracted dispute at FERC. Looking ahead to that probability, SDG&E here highlights two components of the proposed framework that are unpalatable in their current form: 1) The Must Offer Obligation for dispatchable, gas-fired use-limited generation, including the proposal to include the opportunity costs in the resource's default energy bid, start-up cost, and minimum load cost; and 2) the SFCP adder price as it applies to CPM designations.

1. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. As detailed in the fourth revised straw proposal¹ and at the 11/13 stakeholder meeting PG&E has put forward an alternative allocation methodology. Please provide comments for each of these proposals, particularly as they relate to cost causation. If your organization has a preference for one

¹ PG&E's specific proposal can be found at http://www.caiso.com/Documents/PG_E-Comments-FlexibleResourceAdequacyCriteriaMustOfferObligation-ThirdRevisedStrawProposal.pdf.

over the other, please state your preference and why.

SDG&E prefers CAISO's methodology of allocating requirements to LRAs over PG&E's proposal. The flexible capacity requirement is determined based on a coincident maximum ramp where LSEs contribute to that ramp. To allocate a coincident ramp based on non-coincident LSE contributions would be like picking oranges from an apple tree.

2. The ISO believes that demand response resources should have the opportunity to provide flexible capacity. The ISO has proposed how demand response resources could do so. Please provide comments on the ISO's proposal. Specifically, please identify concerns with the ISO's proposal and offer potential solutions to these concerns. Additionally, please comment on the proper forum (ISO, CPUC, etc.) where these concerns should be addressed.

SDG&E believes the CPUC is the proper forum to address how Demand Response may provide flexibility and how EFCs should be determined for those resources. The ISO is the proper forum to define the rules and must offer obligations for DR to bid and participate. Please see SDG&E's comments² on the revised straw proposal with regards to bucketing of DR and ULRs as minimum participation criteria for the ISO to adopt.

3. Please provide comments and recommendations (including requested clarifications) regarding the ISO's proposed must-offer obligations for the following resources types:

- a. Dispatchable gas-fired use-limited resources

1. Please provide comments regarding the ISO's proposal that would allow resources with use- limitations to include the opportunity costs in the resource's default energy bid, start-up cost, and minimum load cost.
2. Please provide information on any use-limitations that have not been addressed and how the ISO could account for them.

The cap on opportunity cost approach cannot work because it may not allow the resource to recover the most significant cost/risk now facing the resource -- the cost of replacement, potentially in every single month. Taking a large step back, SDG&E believes the existing tools to manage these use-limited resources -- i.e., SLIC tickets to indicate that a resource's use limitation has been reached, with no

² Pg 2 – 3 of SDG&E's comments <http://www.caiso.com/Documents/SDGE-Comments-FlexibleResourceAdequacyCriteriaMustOfferObligationsRevisedStrawProposal.pdf>

replacement obligation under SCP – is sufficient for Flexible resources governed by this “interim” framework. Any other outcome that requires replacement where none exists today exposes gas-fired ULRs to far too much incremental risk, and significantly jeopardizes the ability of highly flexible resources to provide needed flexibility. Even the ISO’s own proposal contradicts itself in different sections:

“Additionally, for 2015 RA compliance, the ISO will not propose to require flexible capacity to be replaced due to intra-month outages of.”³

“If a resource is operationally constrained, then the ISO will provide dispatch instructions that consider these limitations. If the resource, in operating consistent with ISO dispatch instructions, reaches an operational limit, then the hours for which that resource is constrained will not count towards the resource’s SFCP calculation...the ISO also believes it is prudent to require use-limited resources that are shown as flexible capacity and reach their use-limitation before the end of the month should be required to provide substitute capacity or be subject to SFCP availability charges.”⁴

The opportunity cost approach with replacement requirement should be rejected.

b. Specialized must-offer obligations:

1. Demand response resources
2. Storage resources
3. Variable energy resources

The ISO’s must offer obligations must not be technology or resource specific. The ISO should require all resources to bid in for all of the flexible MOO hours that resource is required even if the resource has reached its limitation. The ISO systems must be able to recognize the limitation and not dispatch the resource accordingly. Providing special bidding exemptions to different types of resources only increases the complexity of daily operations for each resource owner. Special carve outs may be created for when a resource is exempt from penalties or incentives, but the goal of flexibility as well as generic RA obligations is to ensure there is sufficient capacity to meet the requirement.

4. At the 11/13 stakeholder meeting there a significant amount of discussion regarding the appropriate method for setting the price for the proposed flexible capacity availability incentive mechanism. Please provide comments about how this issue might be resolved.

³ Pg 27 of ISO 4th Revised Proposal

⁴ Pg 55 of ISO 4th Revised Proposal

SDG&E reiterates its belief that the existing CPM framework and compensation levels are adequate to procure flexible resources. History has shown that nearly every single resource procured under the current CPM framework has been flexible.

SDG&E believes the ISO should abandon the incentive and penalty mechanism for the interim proposal and focus on the CPM backstop efforts that may be needed for 2015 compliance year and 2016 for when the current CPM authority ends. The ISO should also consider better energy-market based pricing solutions for when a resource cannot provide the necessary flexibility.

5. The ISO has proposed an SFCP evaluation mechanism/formula that weights compliance with the real-time must offer obligation heavier than the day-ahead must offer obligation. Please comment on:
 - a. The merits of using such a weighting mechanism relative to the “lesser of” proposal from the previous proposal
 - b. The relative weights between the real-time and day-ahead markets

[Please see previous comment](#)

6. There were several clarifying questions asked at the 11/13 stakeholder meeting regarding substitution of flexible capacity that is on forced outage. Please provide comments and / or questions (and potential answers) regarding any additional clarifications the ISO should make in the next revision to clarify this aspect of the proposal.
7. Please provide comments regarding how, or if, the SFCP adder price and the flexible capacity backstop price should be related.

The CAISO believes the SFCP adder price, and CPM price for backstopping Flexible RA deficiencies should be related. SDG&E disagrees. There is no rational basis for presuming that flexible capacity is, at present, inherently more valuable than generic capacity, and that it cannot be adequately compensated by the existing CPM structure. Given current supply and demand projections for flexible capacity, it may be years before the actual prices for flexible and generic capacity begin to meaningfully diverge. Indeed, the only justification for price divergence between generic and flexible CPM designations today is the latter’s inability to self-schedule following the designation. To suggest the proposed SFCP adder is an appropriate proxy for that lost “opportunity” is at best unfounded. At worst, applying proposed adder to Flex CPM designations risks prematurely setting the broader market price for Flex capacity going forward.

8. Are there any additional comments your organization wishes to make at this time?

SDG&E urges the ISO to refocus on the core components of the flexibility requirement and must offer obligations for this interim framework. The discussions on availability incentives are creative but detract from the main goal of having a flexible requirement through an efficient market. As the MSC members have expressed multiple times, trying to achieve a flexibility need through the capacity construct as opposed to the ISO energy market is not the best solution. The ISO should study and plan how it might improve its market to better incent resources to bid in economically rather than self scheduling.