Stakeholder Comments Template

Submitted by	Company	Date Submitted
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Please use this template to provide your written comments on the stakeholder initiative "RMR and CPM Enhancements."

Submit comments to initiativecomments@caiso.com

Comments are due February 22, 2019 by 5:00pm

San Diego Gas & Electric (SDG&E) thanks the CAISO for the opportunity to comment on the CAISO's RMR and CPM Enhancements January 23, 2019 Draft Final Proposal. While the draft final proposal contains recommendations that SDG&E believes will clarify use of RMR and CPM; the draft final proposal fails to adequately address three main concerns that have been raised by SDG&E and other stakeholders.

Using the Resource Adequacy Availability Incentive Mechanism (RAAIM) for Reliability Must Run (RMR) Resources is inappropriate.

The draft final proposal recommends that RMR resources be subject to RAAIM like RA resources. SDG&E does not believe that it is appropriate to subject RMR to RAAIM because the penalty for RMR should be based on the actual capacity cost and actual performance over all hours, as in the existing Pro Forma RMR contract penalty. First, RAAIM is based on a limited number of assessment hours and contains a penalty free dead band. RAAIM was designed to assess availability of capacity for a few hours a day and not for a continuous reliability need. RAAIM makes no sense for RMR contracts for voltage support or black start that have to be continuously available not just during assessment hours. Second, as was correctly pointed out by SCE, an RMR contract is akin to a tolling agreement. RMR covers the entire fixed revenue requirement and pays the resource its costs when dispatched. Under RMR the buyer should receive all the benefits of the resource, which includes not only its capacity value in assessment hours but its maximum value for voltage support, ancillary services, energy and any other values for all hours. As the buyer of RMR, CAISO receives more than just capacity from an RMR resource. Third, the ability to substitute for both planned and forced outages would be available to RMR resources to mitigate exposure to RAAIM penalties. The substitute resources would be subject to a different RAAIM penalty than the RMR resource and allowed to retain market revenues. This undermines the intent of crediting market revenues against the RMR cost of service and allows the resource owner to be fully compensated without any non-performance penalties. Finally, RAAIM would have to have major modification to assure the continuous need for Black Start and Voltage Support RMR contracts. Having RMR as an exception to RAAIM is appropriate.

CAISO's pricing proposal for CPM is inappropriate.

SDG&E supports using full cost-of-service less market revenues as a pricing formula for all annual CPMs whether their full cost-of-service is above or below the Soft Offer cap. SDG&E believes that the Soft Offer Cap may be too high for units with average or below average costs (less than the generic unit used to determine the Soft Offer-cap) and could result in a potential windfall for some resources.

SDG&E recognizes that the voluntary nature of CPM could result in a collective annual deficiency if CPM is not accepted. SDG&E supports an alternative method of compensating an annual CPM the same as an annual RMR contract at full RMR cost of service. For a unit that has been identified as an essential relialibty resource (ERR) for a year, the appropriate payment is not the occasional exceptional dispatch revenue proposed by the CAISO for a declined CPM or the GFFC + market revenues +20% to accept the CPM (which is too high when the unit's full cost of service is lower). The appropriate payment is RMR type cost-of-service less market revenues for all needed capacity. The issue with CAISO's proposal is that it allows a unit to self-select paths to either RMR or CPM. The unit can determine which path will provide the highest compensation and pursue the highest compensation. The CAISO proposal can result in increased costs with no increase in reliability.

A mothballing request permits discovery and exercise of market power.

SDG&E does not support CAISO's proposal to permit resources to request mothballing or retirement as early as February because of the timing of CAISO's notification process. Per the draft final proposal, if a resource submits notice by February 1, CAISO will notify the resource if it is needed for reliability by May 15 (is an ERR). The resource has from May 16 to September 1, before CAISO will begin its procurement process, to negotiate an LSE CPM or RMR contract. SDG&E is concerned that the resource will use its designation as an ERR to establish a price floor for LSE RA contract negotiations; starting negotiations at the higher of full RMR cost of service or Soft Offer Cap. SDG&E believes that this will drive up the cost of reliability for ratepayers.

SDG&E believes that requests to mothball a resource should not disrupt the CPUC's annual RA process. CAISO's procedures for mothballing should have conditions that discourage requests that are nothing more than an attempt to find out it if the resource is an ERR.

In addition to the recommendation proposed in the draft final proposal, SDG&E urges CAISO to consider: (1) a minimum mothballing period of four months, (2) requiring notification from the CAISO of a new need to exit the mothballing period early so that the minimum to exit mothballing early be more than receiving a contract or selling some RA capacity for more than one MW and (3) limiting requests to time of the year that will not impact the bilateral RA negotiations period.