

Reliability Services Working Group

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SDG&E would like to thank the ISO for putting together a very well organized workshop on Replacement and Substitution Rules. The current rules and issues are very complex and the ISO staff was able to provide detailed explanations without causing more confusion. That is not an easy task given the topic and the level of background required. That being said, SDG&E wishes to provide some comments based on the minor revised proposal discussed at the workshop.

SDG&E supports delaying proposed changes to the replacement rule until phase II of RSI. These include the like for like requirement and the replacement of flexible resources on outage until 2018. However, SDG&E would like the ISO to monitor the situation in 2015 based on the portfolio of resources provided as flexible resources which also take outages but did not provide flexible replacement capacity. If these events cause more exceptional dispatches or flexible ramping constraint, then the ISO should consider starting the flexible replacement requirement discussion sooner. The ISO may already be able to gather such data from the 2014 RA monthly data.

Based on the ISO's Release User's Group documents¹ as well as the Master Stakeholder Engagement Plan², the Automated Many to Many Substitution solution is expected to be implemented for Spring 2015 rather than Fall 2015 as noted by the working group slides. This project is combined with App Consolidation of RAAM and CIRA. It is important to note that ISO's proposal of releasing substitute RA capacity in the event of an outage move or cancellation will likely affect either RAAM or CIRA. Based on the Many to Many project implementation, SDG&E would recommend delaying this particular proposal until Spring 2016 as Fall 2015 release already has many major initiatives tentatively scheduled. This proposal seems to show up again in the 2017 implementation roadmap on slide 89. SDG&E wishes to better understand which year this proposal would take place. Ultimate, if the ISO decides one day to move the replacement/substitution functionality to OMS rather than CIRA, which would make sense in light of the ISO's proposal to place the replacement responsibility onto suppliers, the efforts spent on building this particular new functionality into RAAM/CIRA would be duplicative.

¹ http://www.caiso.com/Documents/Agenda-ReleaseUserGroupWebConferenceSep16_2014.pdf, pg 4

² http://www.caiso.com/Documents/MasterStakeholderEngagementPlan_090214.pdf

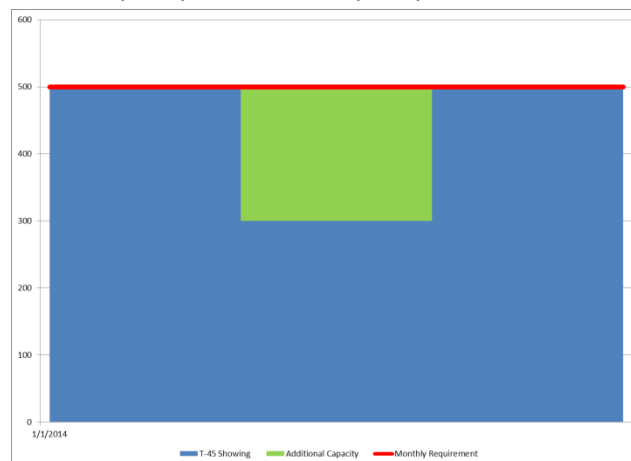
SDG&E does not support the after the fact review of Local RT substitutions. If a resource were contracted to provide substitution but an after the fact review determined that it did not qualify, the cost of the transaction is sunk and the resource on forced outage would suffer an AIM penalty. The uncertainty of the after the fact review approving or denying the substitution is too great. SDG&E would also say that the annual pre-qualification process is unnecessary. It would be simpler for the ISO as well as market participants to exclude how RT outages impact the availability metric and thus negating the need for RT substitution all together. However if the resource does not “bid or self-schedule” in the RT market as obligated then its availability metric would be affected.

SDG&E supports the proposed 8am deadline for day ahead substitution as the changes required to RAAM should not be overly complex.

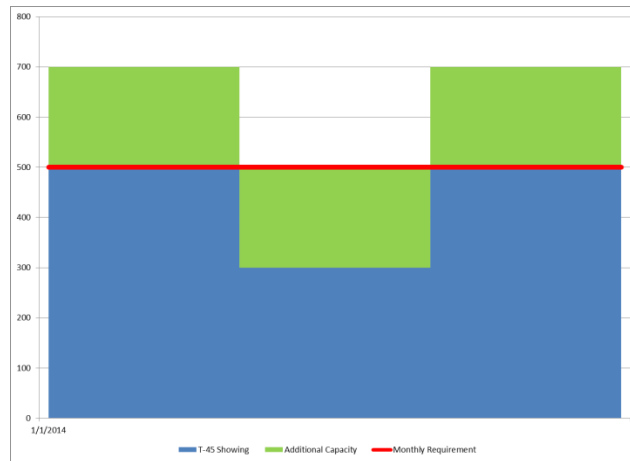
Along the same lines, SDG&E again strongly recommends the ISO to consider a minor change to its current replacement process at T-11. SDG&E believes the ISO should allow LSEs to submit new Designated resources at T-11 in order to meet the PRM. Currently, the ISO only accepts Specified or Non-specified replacement at T-11, the ISO only accepts new Designated resources prior to T-25 in order to cure deficiencies or fix administrative errors.

As an example, at the T-45 showing, the LSE provides 500MWs of capacity which meets 500MWs of RA requirement. Assuming a 200MW outage during the month, the LSE is able to provide 2 solutions.

Option 1: Provide Specified capacity or Intertie Capacity at T-45 to meet the daily requirement.



Option 2: Provide extra Designated capacity from a generation resource for the entire month at T-45.



In both cases the RA requirements are met. If the LSE provided only 500MWs of capacity at T-45 with no replacement, the LSE is then prohibited from supplying Intertie-capacity or additional Designated capacity at T-11. SDG&E would recommend the ISO allow LSEs to provide additional intertie capacity or Designated capacity at T-11 as there is no issue to grid reliability since the RA requirements are met. This issue is critical to all LSEs and changing the current process could potentially lower replacement costs and provide greater efficiency.

For 2017 RA year, SDG&E supports simplifying the replacement process and assigning the replacement responsibility to Suppliers. While SDG&E supports simplifying the overall process by assigning the replacement obligation to suppliers, SDG&E is concerned that the LSEs that provide surplus capacity as replacement capacity to meet the their own respective RA requirement net of outages will be applied to other LSEs' resources which are on outage based on the last in first out rule. Currently, when LSEs provide surplus or replacement capacity, the ISO applies such capacity to the resources which are on outage in the LSE's RA plan. LSEs will not be required to provide replacement capacity for the outages impacted. However in 2017, suppliers would seem to lose the certainty that surplus capacity provided by one LSE, particularly inter-tie capacity, may be allocated to the outages of other resources on other LSE's RA plan because of the last in first out rule. SDG&E believe it is necessary to keep this particular process in the future since inter-tie capacity cannot be entered into CIRA as replacement capacity. SDG&E proposes that the ISO consider keeping the current surplus concept in place when requiring replacement capacity from suppliers. Any outages requested after the LSE showing would not have such LSE components but rather the ISO's total system capacity test.

For the ISO's next proposal, SDG&E would recommend the ISO change the format it represents the business days versus calendar days. Currently, ISO uses the format of T-45 to T+31 in business days. This is the same format that is used for the ISO's current process of T-45 to T+31 calendar days. Changing to business days is acceptable as long as the following items are taken into account:

1. January month-ahead showing is not before the year-ahead RA showing

2. Other CPUC processes such as Load Forecast updates or CAM credit/debit allocation notifications are appropriately coordinated
3. ISO's NQC and EFC monthly update schedules are appropriately moved in order to allow LSEs to continue to utilize updated values as soon as possible

SDG&E does not support the ISO's proposal to separate the system and local showings in order to determine whether or not local resources need to provide local substitutions in order to minimize AIM penalties. There are several reasons for SDG&E's view:

1. Unlike generic and flexible capacity, the locational aspect of a resource is a geographical attribute that cannot be changed one day to the next. Flexible capacity attribute is a financial/economic decision of the resource's operator which can change every hour. When the resource is generating, it is first and foremost supporting the load in the local pocket.
2. Suppose a local resource were shown as 75% local capacity and 100% system capacity. When the resource is partially Forced Out, which attribute should the resource substitute first? Does the Outage Management Office have the correct set of tools to make such determinations in real-time? It does not seem so since the ISO responded no to SDG&E's suggestion of analyzing whether or not there's sufficient surplus local capacity in the committed local RA portfolio to not need local for local substitution in real-time.
3. If the ISO only counts local capacity shown, it is theoretically possible that the LSEs within a Local area may not have the ability to contract for the Local attribute of the capacity not shown when the ISO notifies market participants of a collective deficiency. In CPUC space, the Local and System attributes are bundled for procurement. In order for one LSE to obtain the Local attribute, it must swap another system resource to the other LSE. If transacted after the showing, the ISO validation process itself would prevent the original LSE from removing the local resource from the RA plans because it was already shown.
4. The CPUC's Local RA program is annual by nature. August NQCs are used to meet a 1 in 10 August Peak requirement for all months of the year. The ISO on the other hand seems to suggest that the respective monthly NQC values are used to meet the static Local monthly RA requirement. SDG&E would like the ISO to clarify its proposal.

SDG&E is likewise affected by the current situation where a Local resource may be sold as system capacity and would like the ISO to think of more creative solutions in its next revised proposal. SDG&E has several suggestions for consideration:

1. What is the primary issue? Is it that the AIM price is too high because the resource was compensated at a lower price or is it the substitution resource must be another Local resource?
2. Does this issue occur more in certain months than others?
3. Should the AIM metric be lower such that resources are not constantly penalized for non-availability?
4. Would either shaping the AIM price or the AIM metric mitigate the financial concern?
5. Should the ISO consider reviewing a similar LIFO method for Local substitution as it does with System capacity replacement? If there is surplus local capacity and system capacity net of the

outage, the ISO would not need replacement which is now 9 calendar days prior to the start of the outage.

Many participants noted that not all suppliers have the portfolio of resources to which can provide replacement capacity. This may be the single reason why the ISO is receiving so many more outage requests after T-45 than before. The proposed process will not change this behavior if the supplier cannot readily access replacement capacity. Therefore, SDG&E believes the ISO should explore the benefits of utilizing the proposed CSP to allow suppliers access to the residual capacity. This capacity may be pay as bid and awarded daily to resolve outages on a daily granularity.

SDG&E looks forward to discussing these topics and more at the next RSI meeting.