

Stakeholder Comments
Resource Adequacy Enhancements Fourth Revised Straw Proposal

Submitted by	Company	Date Submitted
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SCE appreciates the opportunity to provide the following comments on the four elements that are included in the CAISO Resource Adequacy (RA) Enhancements Fourth Revised Straw Proposal (the Proposal) dated March 17, 2020¹.

1. System Resource Adequacy UCAP Construct and Sufficiency Tests

The Proposal aims to advance the System RA Showings and Sufficiency Testing topic, deferring the discussion to the next proposal on the remaining topics such as the planning reserving margin (PRM), the system RA requirement under the unforced capacity (UCAP) construct, and the calculation of UCAP. For the System RA Showings, the CAISO proposes that load serving entities should show UCAP, instead of net qualifying capacity (NQC) values². As discussed below, the RA showing of UCAP can have implications to the existing long-term contracts that should be carefully considered under the proposal.

1.1 Issues related to existing long-term contracts under the UCAP Proposal

SCE believes that, under the CAISO proposal to replace NQC with UCAP as the RA compliance instrument, there will be impacts to existing long-term contracts. First, there will be a cost shift from the seller to SCE, because the seller will have a financial saving resulting from the elimination of RAAIM associated with forced outages. Those forced outages, however, will be reflected in the UCAP of the resource and SCE will receive less capacity (i.e. UCAP) to meet its RA compliance, even though payment from SCE to the seller will remain the same. It is important to note that contract prices were agreed to by SCE and sellers based on an assumption that the seller’s contract price must take into account their own forced outage rates, since, under SCE’s contracts, the seller is exposed to RAAIM penalties. For existing contracts, removing RAAIM penalties from the sellers results in a monetary benefit to sellers because it places the risk of forced outages on SCE.

Second, since the RA capacity of a resource is adjusted down under the UCAP construct to reflect the resource’s forced outages, if the RA requirement is not adjusted down proportionately, then there can be an increase in the procurement costs for load serving entities (LSE). In particular, the PRM should be adjusted downward to remove from the PRM the anticipated level of forced outages³. Should the new PRM deviate from the current level adjusted for forced outage rate, there

¹ Resource Adequacy Enhancement Fourth Revised Straw Proposal, dated March 17, 2020,

<http://www.caiso.com/InitiativeDocuments/FourthRevisedStrawProposal-ResourceAdequacyEnhancements.pdf>.

² The Proposal, at 7, “the CAISO proposes to establish UCAP values to identify the unforced capacity value (NQC discounted for units’ forced outage rates) for use in system, local, and flexible RA showings and assessments”.

³ I.e., if the forced outage rate is X%, then the new PRM should be 115% - X%.

will be an increased cost for LSEs, which can be exacerbated under the payment arrangements under SCE's long-term contracts.

SCE believes that the CAISO should remain open to its naming conventions and the use of NQC and UCAP terminology. At a minimum, the CAISO should make clear that UCAP is the successor mechanism to RAAIM and replaces NQC.

1.2 System RA Sufficiency Testing

For the System RA Sufficiency Testing, the CAISO proposes to establish two tests: individual deficiency test and portfolio deficiency test. Individual deficiency test would ensure a load serving entity's RA fleet meets its share of the system RA requirement, which is set based on the peak load combined with the PRM; however, details on the PRM would still need to be discussed in the next proposal.

There are several issues and challenges with the portfolio deficiency test, including the challenges noted in the Proposal: 1) establishing the defined reliability criteria that triggers the need for backstop procurement, and 2) establishing the quantity of capacity needed to cure the portfolio deficiency following a stochastic approach⁴. It's also unclear how the timeline and process would work given that the test must be performed after monthly supply plans are submitted under the Proposal.

To address the need of minimizing the risk of backstop and associated costs that can arise following the portfolio deficiency test, the CAISO proposes to coordinate with the CPUC and other local regulatory agencies to set up-front requirements for their jurisdictional load serving entities (LSEs). SCE believes that such coordination is critical and cannot be over emphasized. There are many issues that are being tackled in the CPUC RA proceeding (R.19-11-009). In fact, the scope of Track 3 of the RA proceeding includes an evaluation of structural changes and refinements to the RA program, specifically:

1. Examination of the broader RA capacity structure to address energy attributes and hourly capacity requirements, given the increasing penetration of use-limited resources, greater reliance on preferred resources, rolling off of a significant amount of long-term tolling contracts held by utilities, and material increases in energy and capacity prices experienced in California over the past years.
2. Other significant structural changes to the RA program identified during Track 1 or Track 2 that will require more process and time to develop and implement.⁵

The issues included in the scope of the Track 3 of the RA proceeding overlap with the issues that the CAISO proposed portfolio deficiency test aims to address, including issues around system deficiency due to a resource mix reflecting increasing penetration of use- and energy-limited resources. As such, SCE recommends that the CAISO should coordinate its work with the CPUC and

⁴ The Proposal, at 11.

⁵ CPUC RA Scoping Memo, at 7.

consider deferring the proposal on the system RA sufficiency test, in particular, the portfolio deficiency test, until Track 3 of the RA proceeding concludes, which is expected in Q1 2021. This deferral is necessary for the best use of the stakeholders' resource and would avoid a re-design of the CAISO RA program should the solutions from Track 3 of the RA proceeding deviate significantly from the CAISO's proposal.

2. Planned Outage Process Enhancements

SCE appreciates CAISO's thoughts on the topic of planned outage process enhancements. SCE agrees with the CAISO that a planned outage process enhancements proposal should not incentivize capacity withholding for the purpose of meeting substitution needs for a planned outage. In the 4th Revised Straw Proposal, the CAISO has proposed two options: Option 1 – maintaining planned outage reserve margin during non-summer months (Nov-May) and Option 2 – a daily substitute capacity procurement market. Option 1 appears to be more straightforward and easier to implement compared to Option 2. Specifically, SCE agrees with the CAISO that Option 2 could lead to the same incentive issue as today, i.e. withholding capacity in order to meet substitution requirements for a planned outage, and that Option 2 also involves complicated issues such as how a daily bid cap should be structured, how market power issues should be addressed, and how partial clearing (e.g., a week-long outage can only find substitution for four days) should be addressed⁶. Given all these issues associated with Option 2, SCE finds Option 1 preferable to Option 2. Therefore, SCE recommends that the CAISO and the stakeholders should continue to explore Option 1. Specifically, how an appropriate level of planned outage reserve margin is determined under Option 1, whether there should be a different level of planning reserve margin for each month, and whether there will be any leaning issues under Option 1 that must be addressed. These and other questions should be answered in the next proposal.

3. RA Import

As stated above, the CAISO should closely coordinate its process with that of the CPUC RA proceeding, as there are active discussions on RA import under the CPUC RA proceeding. Activities at the CPUC include the RA proceeding Track 1, which is designated to address RA Import issues, and the limited rehearing of Decision 19-10-021, both are ongoing at this time. In addition, a decision from CPUC on import RA is expected in May 2020 (or in June 2020 if it's incorporated into the Track 2 decision)⁷. Given these activities, SCE recommends that the CAISO should coordinate its process with the timeline of the CPUC activities and consider deferring its proposal and discussion on RA Import until a CPUC decision on the same subject. When the rules on RA import and any modifications from the CPUC process become final and available to the stakeholders, the CAISO and stakeholders are better positioned to evaluate and address any necessary changes to the CAISO RA process.

⁶ The CAISO Proposal, at 17-19.

⁷ The RA Scoping Memo, at 9.

4. Backstop Capacity Procurement Provisions

SCE believes that the backstop capacity procurement provisions proposed by the CAISO are generally reasonable⁸. However, this area of the Proposal is directly tied to the overall UCAP construct that is still being evaluated and the system RA sufficiency tests (individual deficiency test and portfolio deficiency test) proposed by the CAISO. As commented above, SCE believes those areas either still need to be evaluated or should be deferred until Track 3 of the CPUC RA proceeding concludes. For this reason, SCE believes that the proposed backstop capacity procurement provisions therefore should be deferred along with the system RA sufficiency tests.

⁸ The proposal on backstop capacity procurement provisions is described in the CAISO Proposal, at 33-42.