Penalties and backstop under slice-of-day

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Status quo

- Deficient LSEs currently face the following penalties/costs:
  - CPUC: (Summer) penalty of (up to 3x) $8.88/kW-month
  - CAISO: Potential exposure to CPM up to $6.31/kW-month (or higher in certain cases)
- Even this combination may be insufficient to encourage LSEs to procure the most expensive capacity, e.g., imports

It is important to preserve similar, if not stronger, incentives under slice-of-day

CPUC penalties under slice-of-day

- Penalties should be sufficient to encourage LSEs to procure for every slice
  - E.g., under a 24 slice approach, if the hourly penalty is 1/24th the current penalty, LSEs might not procure for the highest demand slices
- Penalties should be sufficient to encourage procurement at prices that allow suppliers to recover costs even if they are only procured for a single slice
- Calpine supports SCE's proposal to tie penalties to the maximum deficiency in any slice
  - Preserves the current relationship between LSE penalties and supplier costs, even for capacity that is only procured for a single slice
  - Avoids duplicative penalties for LSEs with deficiencies in multiple slices that could be cured with the same capacity
  - Relationship to points system? A point accrued for deficiency in any hour (two points in summer)?

Hour	15	16	17	18	19
Requirement (MW)	100	110	120	110	100
Showing (MW)	100	90	80	70	70
Deficiency (MW)	0	20	40	40	30
Penalty (MW)	40				
Penalty ($) [MW * $8.88/kW-month]	355,200				

PG&E/SCE proposal example

CAISO CPM under slice-of-day

Calpine's understanding:

- Initially, CAISO will validate LSE showings for the peak slice
- CAISO will not use CPM to cure LSE deficiencies in slices that it does not validate
  - LSEs may have weaker incentives to cure deficiencies in these slices
  - Other slices, e.g., the net peak, may be more important for reliability
- CAISO may use other flavors of CPM, e.g., significant event, to cure deficiencies that are not tied to specific LSE deficiencies
  - Costs of this type of CPM procurement may be socialized inappropriately
  - Potentially addressed by allocating costs first to LRA and allowing LRA to allocate costs to LSEs (probably requires tariff change)
- Ideally and eventually, CAISO should validate all slices in the same manner as the CPUC and allocate CPM costs in a fashion similar to CPUC penalties