

**Comments of the California Municipal Utilities Association (CMUA)
on the
CAISO's Straw Proposal-Cost Allocation Guiding Principles (February 14, 2012)**

CMUA submits these comments on the above-captioned Straw Proposal to apply established guiding principles for cost allocation to the many pending initiatives and products underway, largely as a result of renewable resource integration efforts.

First, CMUA fully supports this exercise. As the CAISO recognizes and has become evident in stakeholder discussions over the last several months on Flexible Ramping and other product design issues, there is a need to harmonize cost allocation across the market design in order to provide consistent price signals that incentivize efficient market participant behavior. Second, CMUA believes that these principles could be streamlined as certain of the latter principles are duplicative or derivative of the core Cost Causation principle.

CMUA provides brief comments on the guiding principles set forth in the Straw Proposal:

1. Cost Causation

CMUA completely agrees that costs should be allocated based on cost causation principles. Market participants that cause particular costs to be incurred should be allocated those costs. This is a fundamental ratemaking tenet and is required in order for a cost allocation proposal to be just and reasonable. Moreover, it provides the correct price signal to the market participant causing the cost to be incurred to modify behavior and thus lower overall costs. This is also consistent with fundamental economic principles to place the cost on the entity that has the most control over the behavior that causes the cost to be incurred.

CMUA cautions that this is not the same as “beneficiary pays,” as the Straw Proposal could be read to imply. Straw Proposal at 5. “Beneficiary pays” concepts set the table for normative judgments that go beyond the technical attribution of costs. The CAISO should be wary of that concept.

2. Comparable Treatment

Federal law requires that all rates and charges of the CAISO be not unduly discriminatory. Thus, similarly situated market participants should be treated similarly.

CMUA supports comparable treatment, recognizing that all market participants are not identical.

A key issue that is repeatedly raised by renewable resource suppliers is their perception that “all resources are expected to act like thermal gas-fired resources.” CMUA submits that the standard for payment of all resources should be based on their performance against the need to serve load. It is the load-serving characteristics of any resource technology that is a neutral indicator of how a resource contributes to or exacerbates the market performance.

3. Policy Alignment

CMUA supports cost allocation aligned with policy direction, but at this stage questions what that means in this context. If costs are allocated based on cost-causation principles, within the framework of an overall policy mandate (say 33% renewable portfolio standard), this does align with policy direction because it enables the most cost-efficient realization of the policy goal which is mandated and already established. The mechanisms for compliance and enforcement of the policy objective are not part of the CAISO’s purview, and will handle themselves.

4. Incentivize Behavior

CMUA supports this principle.

5. Manageable

CMUA supports this principle, which is a necessary outgrowth of Principle #1. CMUA suggests that this Principle should be articulated further, to clarify that the principle is to enable “Market Participants to self-manage cost exposure.”

6. Synchronized

CMUA awaits further explication of this Guiding Principle.

7. Rational

Practical and administrative burdens of a settlement attribution proposal are indeed relevant. CMUA cautions that this Guiding Principle should not be used to overturn basic cost causation principles.