December 13, 2011

Comments of the California Municipal Utilities Assocation (CMUA)
***Flexible Ramping Products Revised Straw Proposal* (November 29, 2011)**

CMUA submits these comments on the above-captioned proposal by the CAISO to implement a flexible ramping product.

As the CAISO embarks upon aggressive market design reforms to allow grid reliability to be maintained in the face of increasing penetration of intermittent renewable resources, establishment of associated price signals *and* attribution of the associated integration costs based on cost causation principles is paramount. CMUA is highly disappointed that the CAISO has backed away from its earlier proposal that would have tracked and allocated flexible ramping costs in part based on cost causation principles. CMUA opposes the CAISO Revised Straw Proposal.

There can be no doubt that the reason the CAISO is undertaking this initiative is because of increased and larger contemplated amounts of intermittent resources, with associated variable energy outputs. It is the unprecedented variability of certain renewable resources that is causing the need for new market products. *Revised Straw Proposal at 5.*

In fact, the initial Straw Proposal posted on November 1, 2011 included an allocation method that was aligned more closely with cost causation and would have allocated a portion of Flexible Ramping costs to resources based upon deviations. The Revised Straw Proposal gives no explanation for abandoning the cost causation principle and simply proposing to allocate all Flexible Ramping costs to Load.

The CAISO touts provisions of its Revised Straw Proposal that collect data and allow examination of the resulting Flexible Ramping costs, and the attribution of the cost information to cost "buckets." *Revised Straw Proposal at 32-34.* It is difficult to ascertain how this will impact market participant behavior without the accompanying price signal *that matters*.

The CAISO should not be swayed by arguments that "since load pays all costs in the end, it does not matter how costs are allocated." First, by departing from cost causation principles the CAISO is removing the price signal from the entities that have the greatest ability to remedy the problem, namely the intermittent resource owners, in violation of basic economic principles. Second, load is not a monolith. Different load serving entities have fashioned their renewable portfolios differently. Some have heavily reliance on variable resources; some less so. Indeed, many CMUA members have made and are making significant investment in baseload renewable resources, or shaped products that do not have nearly the same variability as other eligible renewables. These premium products are penalized and CMUA members forced to pay twice because the value they bring to the CAISO is negated by socialized uplift of ramping costs.

This debate over the allocation of Flexible Ramping product costs is just a first in what is likely a serious of cost allocation debates about new market products necessary to integrate renewable resources. The CAISO risks significant damage to its market design by departing from cost causation principles at the outset of these efforts.