

California Independent System Operator
Renewables Integration - Market and Product Review Phase 2

**Comments of the California Wind Energy Association
on the November 29, 2011 Flexible Ramping Product Revised Straw Proposal**

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Introduction

The California Wind Energy Association appreciates the opportunity to comment on the California Independent System Operator's (CAISO) Flexible Ramping Product Revised Straw Proposal, released on November 29, 2011. The main points in the CAISO revised proposal are:

- A more detailed presentation, with numerical examples, of a market-based procurement process to procure a short-term Flexible Ramping Capacity (FRC) product intended to ensure the availability of the flexibility capability that CAISO will need for many purposes, including the increased penetration of renewable resources.
- An explanation of the CAISO plan to allocate the cost of procuring the FRC product directly to load in a fashion similar to the approach it uses to allocate the cost of all the other capacity products that CAISO procures in its various markets.

Our comments here are consistent with those that we have already presented to the CAISO in the discussion of the broader RI-MPR 2 initiative and our comments of 11/14/2011 on the original CAISO straw proposal on the introduction of the FRC product. Our comments primarily convey two points:

1. We continue to ask the CAISO to demonstrate why the introduction of a new capacity product with specific ramping performance characteristics is superior, from market reliability and efficiency perspectives, to the alternative of modeling those performance characteristics as constraints when procuring various existing capacity products (e.g., non-contingent A/S capacity) within the Day Ahead (DA) and Real-Time (RT) market frameworks.
2. We applaud the CAISO for not rushing into a new cost allocation (product pricing) approach that admittedly is based on simplistic "cost causation" principles and would diverge, in a fashion that we believe is discriminatory, from the cost allocation

mechanisms that the CAISO has consistently used and continues to use for allocating all the other similar capacity products that it currently procures.

1. Optimum Approach to Meeting the System Ramping Needs

CalWEA continues to support CAISO's efforts to ensure that sufficient technical capability is available to the system operator at all times to meet the system operational ramping needs. In that regard, we understand CAISO's incentive to procure an FRC product. At the same time, we believe that the current effort underway at the CAISO to model the forecasted system ramping need as a constraint in its short-term market framework, once expanded per our suggestion below, should be able to also address this very need in a more comprehensive fashion. This approach will avoid the introduction of a new market product and will obviate the need for CAISO market participants to alter their CAISO interfacing systems to deal with the trading and settlement of a new product.

CalWEA believes that the following systematic steps should be implemented by the CAISO (some are already underway at the CAISO) to efficiently and comprehensively meet the system ramping needs of the CAISO BAA both on a long- and the short-term basis:

- 1) The CAISO should ensure that resources that are being procured on a long-term basis can meet all system operational needs, including the needed ramping capabilities. The CAISO can achieve this goal by informing the CPUC, in the Resource Adequacy (RA) procurement process that it administers, of its long-term specific system flexibility (e.g., ramping) needs. Alternatively, or if the CAISO determines that sufficient system flexibility (e.g., ramping) cannot be efficiently obtained through the CPUC-administered RA procurement process, the CAISO should establish its own long-term capacity procurement process for this purpose.
- 2) The CAISO should ensure that sufficient ramping capability is committed as part of the CAISO's day-ahead (DA) market framework, and is thus available in real time, by modeling the ramping needs as a constraint in its DA Market computations.
- 3) The CAISO should account for the system ramping needs in its real-time (RT) market framework by modeling such ramping requirements as constraint in its short-term commitment and dispatch models.
- 4) The LSEs' renewable Power Purchase Agreements (PPAs) signed in 2011 and beyond (and likely before 2011) all have economic curtailment provisions that allow LSEs to curtail renewable generation resources for a certain number of hours in a year for economic and other reasons. We believe that, to the extent that it does not have such control now, the CAISO should work with the CPUC and LSEs to receive direct

control over the economic curtailment provisions of renewable resources as made available in PPAs.

We think that the aforementioned four elements will rationally and comprehensively assist CAISO in accessing the resources it needs to meet its system ramping needs both on long-term and short-term bases. All the technical and some of the policy elements of this approach are already in place and, therefore, it could be implemented in a relatively straightforward and timely fashion.

Unfortunately, what we see in the CAISO proposal is solely focused on creating a new market mechanism for short-term procurement of a new capacity product. To us, this approach neither ensures that the CAISO has lined up, through a long-term capacity procurement process, sufficient ramping capabilities to be available for commitment and dispatch at all times, nor does it use the flexibility that is offered by renewable resources available as part of their PPAs .

As we have repeatedly indicated at the RI-MPR 2 and flexible-ramping stakeholder events, CalWEA is not asking the CAISO to abandon its quest for a new capacity procurement process but to offer an analysis (not necessarily a detailed quantitative analysis) to demonstrate that its proposal, centered only around the procurement of a short-term capacity product, is the most efficient approach for meeting the system's ramping needs.

2. Rational Proposal on Cost Allocation

CalWEA supports the CAISO's rational proposal to equitably allocate the cost of FRC product procurement in a manner that is consistent with the methodology that it uses for allocating the cost of all similar capacity products. In its proposal, the CAISO acknowledges that it is premature and, as we contend discriminatory, to deviate from its current capacity cost allocation methodologies towards a new "cost causation" based approach that not only targets just one product and one segment of its market participants, but is also too simplistic and does not correspond to the actual cost caused by those who use the product.

CalWEA especially appreciates CAISO's intent to launch a broader discussion of cost allocation to fundamentally look into the most efficient and equitable way of allocating the cost of the various products and services that are procured through CAISO's various markets. As noted before, we continue to believe that untimely emphasis on the very divisive and subjective cost allocation and pricing topic will simply act as an impediment to our collective efforts to find the best solutions to the real concerns that we need to address.

CalWEA also believes that, once the broad and comprehensive cost-allocation initiative is kicked off, it is critical for us to refrain from rushing to superficial and simplistic cost allocation methods under the guise of "cost causation." We should also be wary of the "one

size fits all” arguments that marginal cost pricing is the most efficient way of allocating costs under all circumstances. The focus of such a comprehensive initiative should be to first develop rational and commonsense criteria to best allocate the costs of the CAISO’s various products and services, particularly as related to products and services that are procured on policy grounds. For example, as we have suggested before, CalWEA believes that, to the extent that real cost-causation drivers can be identified and approximated with a sufficient degree of precision, it would be best to include such costs in the Least-Cost, Best-Fit (LCBF) bid evaluation process that the utilities use to procure renewable resources based on their total cost – including indirect costs. Once a resource has been optimally selected based on its total cost, including all indirect costs that are rationally approximated, any additional ex-post allocation of indirect costs, such as integration costs, to the resource would not only be tantamount to double counting but also will complicate development financing risks and, hence, increase the cost of procuring the resource.