

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

**Comments of the California Wind Energy Association
on the November 1, 2011 Flexible Ramping Product Straw Proposal**

Contact Information: Dariush Shirmohammadi
e-mail: dshirmohammadi@calwea.org
phone: 310-858-1174
Nancy Rader
e-mail: nrader@calwea.org
phone: 510-845-5077

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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 Straw Proposal, released on November 1, 2011. The proposal discusses market-based procurement of a separate short-term flexible ramping product intended to provide the CAISO grid with some of the added flexibility capability that is needed to address the increased penetration of renewable resources and for other reasons. Our comments here are very much in line with those that we have already presented to the CAISO in the discussion of the broader RI-MPR 2 initiative and primarily call into question the CAISO's stated objective and plan to introduce a separate market product for addressing ramping capacity needs.

What Is the Best Way to Meet the Need for Flexible Ramping?

CalWEA has consistently supported CAISO's efforts to ensure that sufficient capability is available to the system operator to meet the system ramping need for real-time operations. We question, however, whether the CAISO's stated plans in its straw proposal address this need in an efficient manner.

CalWEA believes that the following logical and systematic steps are required to efficiently meet the system ramping needs both in the long and short run:

- 1) The CAISO should ensure that resources that are being procured on a long-term basis to meet system capacity needs include appropriate ramping capabilities. The CAISO can achieve this goal by informing the CPUC, in its Resource Adequacy (RA) procurement process, of its specific ramping needs. Alternatively, or if the CAISO

determines that sufficient ramping capability cannot be attained through the CPUC's RA procurement process, the CAISO should establish its own long-term capacity procurement process.

- 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 IOUs' contracts have long provided for physical curtailment of projects by the utilities in response to grid reliability issues, such as system emergencies and CAISO-declared over-generation conditions. (In addition to these physical curtailment rights, all contracts signed in 2011 and beyond can be expected to also have economic curtailment provisions, which are included in all three of the utilities' 2011 pro forma contracts.) To the extent that it does not have such a control, the CAISO should work with the CPUC and IOUs to arrange to also receive full or partial control over economic curtailment provisions of renewable resources as made available in their PPAs.

The process outlined above would rationally and efficiently meet system ramping needs both on long-term and short-term bases. All the technical and most of the policy elements of this approach are already in place and as such it could be implemented in a rather straightforward and timely fashion.

Instead, what we see in the CAISO proposal is a sole focus on creating a short-term capacity product (Flexi-ramp) to be committed and dispatched during the RT market timeframe. This approach neither ensures that the CAISO has lined up, through a long-term capacity procurement process and a DA commitment process, sufficient ramping capabilities to be committed and dispatched in real-time, nor is it the most efficient way of meeting the system's ramping needs. As we have repeatedly asked the CAISO at the stakeholder events held for RI-MPR 2 and Flexible-ramping initiatives, we request that the CAISO offer any analysis that this short-term market product approach would be the most reliable and efficient way of meeting the system's ramping needs.

Again Too Much Emphasis on Cost Allocation

In its proposal, after creating a new product that we are not convinced is needed at all, the CAISO quickly moves on to the subject of allocating the cost of that product based on "cost causation" principles. Without repeating all of our previous arguments on that topic, we

underscore the point that most such allocations are inconsistently and simplistically implemented in practice. We are especially concerned that a desire to implement a “new” cost allocation approach may have played a part in creating this Flexi-ramp product in the first place, which could compromise system efficiency for the sake of cost allocation.

Furthermore, we realize that one of the most important elements of any cost allocation exercise is to ensure that resources that deliver the needed ramping capability are properly compensated for their costs and services. We believe that the framework that we have presented here will offer these resources proper long-term and short-term compensation, using the existing marginal-cost-based pricing mechanisms. This is because factoring in system ramping needs and constraints in both long-term procurement and DA commitment processes will increase the payment to resources that provide such services.

We continue to believe that untimely emphasis on cost allocation and pricing, particularly as part of a policy-driven initiative, will act as an impediment to our efforts to find the best solutions to the real problems that we are facing. We continue to recommend that the generally subjective, complex and highly divisive subject of cost allocation be taken out of these discussions at this time and, if at all, be covered as part of a separate initiative. Any such discussion should address the topic of cost allocation in a fundamental and comprehensive manner and cover all of the CAISO products and services and all of its market participants rather than only allocating the cost of certain new services to VERs. Separating the cost allocation discussion will allow us to focus our attention on market reforms for addressing system reliability needs and efficiency improvements rather than getting entangled in unproductive arguments on the subjective and highly divisive issue of cost allocation.

Finally, we observe that, to the extent that real cost-causation drivers can be identified and approximated with a sufficient degree of precision, such costs should be included in the Least Cost Best Fit (LCBF) bid evaluation process that the utilities use to procure renewable resources on a total-cost basis (including indirect costs). Once a resource has been optimally selected based on its total cost, any additional ex-post allocation of any indirect costs, such as integration costs, to the resource would not only be tantamount to double counting but also will complicate the financing risk and increase the cost of the resource.