



Iberdrola Renewables appreciates the opportunity to comment on the CAISO's Cost Allocation Guiding Principles Draft Final Proposal and its Flexible Ramping Product Cost Allocation Straw Proposal. Iberdrola Renewables supports the CAISO's stated intent to holistically review cost allocation of its costs but reiterates its recommendation that the CAISO should first focus its resources on implementing market mechanisms that will reduce the total amount of integration services that are required. If the CAISO were to take proper steps to improve its market design, the integration of renewable generation would much less expensive and discussion of cost allocation much less contentious. The CAISO's flexible ramping product proposal appears to allow wind generators to update schedules on a fifteen minute basis for the determination of attributable flexible ramping service. This is a positive development and Iberdrola Renewables strongly encourages the CAISO to fully incorporate these shorter scheduling intervals into the operation of its market.

Although Iberdrola supports the CAISO's cost allocation guiding principles in concept, Iberdrola Renewables is concerned the actual application may not produce an equitable or logical result. The CAISO's proposed cost allocation of its new flexible ramping product is a good example of how such a result may materialize. The CAISO is proposing to allocate the cost of this new product to all customers based on the expected potential deviations across all market participants. At first glance this proposed cost allocation methodology appears to meet the identified "guiding principles" but a closer review demonstrates otherwise.

**Causation** – *Costs will be charged to resources and/or market participants that benefit from and/or drive the costs.*

The CAISO's proposed allocation of costs based on expected deviations will no doubt fall heavily on renewable generators with variable output that cannot be fully dispatched. On the surface the principle of cost causation seems to be properly achieved given the variable output of these renewable generators is "causing" the need for the increased flexibility procured through the new ramping product. A more thorough consideration of the cause, however, identifies the Load Serving Entities (LSEs) as the primary driver behind the expected increase in deviations as they are procuring significant amounts of generation from variable energy resources to satisfy their Renewable Portfolio Standard requirements. These procurement decisions are driven entirely by the LSEs and are primarily implemented through long-term Purchased Power Agreements (PPAs). Renewable generators with existing PPAs have no mechanism to pass through new CAISO costs to their customers and allocation of new costs will harm the economics of these projects. In the current market environment, new renewable generating facilities must accept the risk of all existing and any new CAISO costs as part of the pro forma

PPAs of the large California LSEs. In both circumstances, renewable generators will be shouldering costs that they have no ability to pass through to the entities truly driving these incremental costs – the load. It is important to clarify that Iberdrola Renewables has consistently stated its view that variable energy resources must demonstrate responsible scheduling and operation of their resources to minimize their impact to the grid. Iberdrola Renewables supports market structures that properly incentivize behavior that is within the control of the variable resource operator but unavoidable costs resulting from the nature of variable energy resources should be attributed to the customers purchasing the renewable output.

**Comparable Treatment** – *Similarly situated resources and/or market participants should receive similar allocation of costs and not be unduly discriminated against.*

As discussed, the current environment does not allow Independent Power Producers to pass costs through to load. The pro forma PPAs of California utilities require the generator to accept virtually all responsibility for integration costs and provide no reasonable means for cost recovery of these charges. In addition, existing generators with a PPA likely have a fixed price for energy sales with no mechanism to pass through any new costs imposed through a revised CAISO cost allocation methodology. Direct allocation of additional costs will negatively impact the economics of these long-term agreements and will present a significant barrier to renewable development. These same scenarios do not exist, however, for the California utilities who build renewable generation facilities as these utilities can pass through all relevant charges to their customers. As such, any direct allocation of integration costs by the CAISO will inevitably result in an unequal allocation, one that harms Independent Power Producers and does not meet the “Comparable Treatment” principle.

**Accurate Price Signals** – *The cost allocation design supports the economically efficient achievement of state and federal policy goals by providing accurate price signals from the ISO market.*

The CAISO stated in their proposal that they believe accurate price signals from the ISO markets are vital to achieving efficient implementation of state and federal policies and informing and influencing development of state and federal policy that are independent of the ISO markets. Iberdrola Renewables wholeheartedly agrees. However, as described above, if the incremental cost of providing required flexibility for the integration of renewable resources is charged to the renewable generators, these price signals will never be visible to the customers driving the need for these incremental services and the stated goals of price transparency and informing policy development cannot be achieved.

**Incentivize Behavior** – *Providing appropriate incentives is key to an economically efficient market. Profit maximization by market participants that are allocated costs should lead to lower costs incurred by the ISO market over a reasonable timeframe.*

The effectiveness of incentivizing behavior relies on an assumption that the entity being allocated the costs has some ability to change its behavior in response to a penalty or cost. By their nature, variable energy resources have a limited ability to control their output, making a

fundamental shift in their “behavior” unrealistic. The CAISO’s proposal to allow more frequent updates to schedules for purposes of allocating the flexible ramping product is a step in the right direction as variable generators will have a clear incentive to submit schedule updates. These updates should reduce the expected deviation and lower the total amount of flexible ramping the CAISO must procure, but variable generators will not have an ability to further reduce their exposure to this charge given the operational limitations imposed by their naturally fluctuating fuel source.

**Manageable** – *Market participants should have the ability to manage exposure to the allocation.* The combination of the operational limitations of variable energy resources and the inability to pass costs through to customers highlights the difficulty renewable generators will have in managing exposure to the cost allocation in alignment with this stated principle.

A closer review of the CAISO’s proposed cost allocation for the flexible ramping product highlights the disconnect between the cost allocation principles in concept and in application. The majority of these issues would be resolved, however, and the stated goal of the cost allocation principles would be achieved if the generators incurring these unavoidable costs were able to pass them through to the customers benefitting from the service. The CAISO’s proposal recognized that transitional measures may be required to allow sufficient time for market participants to implement cost allocation changes within their contractual arrangements. Iberdrola Renewables agrees with this observation and supports the proposal submitted by IEP in this initiative to transition to an environment in which cost responsibility for unavoidable CAISO market costs can shift from generators to LSEs.