Flexible Ramping Product
Supplemental Foundational Approach, July 11, 2012

Submitted by	Company	Date Submitted
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Sempra US Gas and Power appreciates this opportunity to provide the following comments on the “Flexible Ramping Product Supplemental Foundational Approach” issued by the CAISO on July 11, 2012 (the “Proposal”). As requested in the ISO’s June 27, 2012 Market Notice, the following comments address topics in the Proposal relating to the allocation of flexible ramping costs.

Section 4 of the Proposal discusses the allocation of flexible ramping costs based on the CAISO’s allocation guiding principles of 1) causation, 2) comparable treatment, 3) efficient policy achievement, 4) incentivize behavior, 5) manageable, 6) synchronized, and 7) rational. Section 4.7 indicates that flexible ramping costs will be allocated to scheduling coordinators, and that functionality will be available to allow assigning flexible ramping product costs at the resource level between scheduling coordinators (SC). However, the Proposal does not address the default SC responsible for flexible ramping costs. The Proposal should be revised to define the SC for load contracted to purchase energy from a resource as the default entity responsible for flexible ramping costs. In the event that the contract defines the resource SC as specifically responsible for flexible ramping costs, the CAISO’s proposed functionality can be used to transfer the obligation. The rational for this approach is discussed further in the following.

1. Flexible ramping costs are most appropriately considered in the Load Serving Entity (LSE) long term contracting decision. New renewable resource commitments are largely made through long term contracts based on an LSE’s assessment of the costs and benefits of various resource options. Once the long term resource commitment is made, there is little opportunity to modify the system ramping needs required by the resource as a result of variability in the renewable wind or solar fuel source, for the life of the project. Therefore, the incentive to align cost causation with cost allocation under the guiding principles is best achieved by assigning the supply portion of flexible ramping costs to the contracting LSE making the long term supply commitment.

2. The LSE default cost allocation approach best captures the appropriate protocol for the broadest array of resource contracts. In many cases LSEs are the SC

for their contracted supply however, LSEs have increasing requested that suppliers provide SC services. A load-based cost allocation is the best approach to cover both circumstances where the LSE is the SC for the resource or cases where the resource or a third party supplier provides SC services. As was noted in the 7/17/2012 stakeholder meeting, this applies to both renewable resources and fossil resources under tolling agreements.

3. Guiding principle 3 addresses achieving policy objectives in the most efficient manner. It is well established that California's renewable policy objective is to achieve 33% renewable generation by 2020 at the lowest overall cost. Given that the flexible ramping product is still in development and the associated flexible ramping costs are not currently known, suppliers and financing institutions would require a significant risk premium to include such unknown costs in their long term contract offerings. As a matter of policy, it is in the state's interest to allocate flexible ramping costs to LSEs with the ability to pass through such costs, at least until such time as the costs are established and a price history is developed to support a reduction in the risk premium for long term contracts.

Regardless of which allocation protocol the CAISO chooses going forward, existing contracts should be grandfathered from flexible ramping cost allocation. This protocol has precedent. For example, as reflected in FERC's August 2010 order in Docket No. ER10-1524-000, the CAISO provided for grandfathering of resource-specific power supply contracts with respect to the Standard Capacity Product provisions. Given the adverse impact, the CAISO should explicitly grandfather existing contracts from ramping cost allocation, as part of a reasoned transition plan.