

Western Power Trading Forum Comments on Cost Allocation

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WPTF is pleased to provide these comments on the ISO's initial white paper on cost allocation, "Cost Allocation Guiding Principles Straw Proposal", dated February 14, 2012.

We offer feedback on several aspects below.

The chicken-and-egg problem

WPTF understands the CAISO's commitment to perform a "holistic" review of cost allocation, yet we question the extent to which any meaningful cost allocation conclusions can be drawn in the abstract. Thus we would not want this process to preclude further resolution or adjustment once the ISO reaches the point of applying the principles to particular ISO costs. Similarly, applying the principles to one service before others runs the risks that what seems to make sense for one service does not make sense for others. It is far preferable to take on the cost allocation approach comprehensively rather than develop it for a single ancillary service that impacts a subset of CAISO resources, and then apply it broadly to the rest of the market in a bifurcated process. To reach a fully vetted and thoughtful solution the ISO should approach the issue comprehensively and deal with all the ramifications to assure that the benefits truly justify a revamp of the ancillary service market. Thus, WPTF would appreciate further discussion on the merits of considering all the services together as opposed to considering services serially. If the ISO continues to pursue a serial approach then we suggest the ISO consider phases whereby, for example, the flexiramp cost allocation can be reconsidered after the ISO has applied the principles to other services such as operating reserves and regulation.

Cost allocation in practice might be much more difficult than cost allocation in theory

Whereas a cost-causation principle is one WPTF strongly endorses, determining what party is *causing* the need for ancillary services, for example, is technically very challenging and may lie at least partially in the eye of the beholder. For example, has the single largest generating unit on the system been causing the need for operating reserves at the level of the single largest contingency? Considering the practical implications of certain theoretical approaches, it may be useful to establish good principles. On a more practical note, the question of grandfathering existing resources is tough because while grandfathering may have commercial merit, it would mean that the new ancillary services costs would be placed on a small set of mostly new renewable resources. Obviously, if the new cost allocation approach were only applied to a subset of new resources or newly contracted resources, the benefits of the approach would be called into question. Similarly issues of grandfathering and whether different consideration is given to IPP vs. utility-owned assets will require careful treatment if the CAISO is to explore meeting policy objectives as a key objective.

“Comparable treatment” is challenging in a world of dissimilarities

WPTF is very supportive of non-discriminatory treatment and believes the challenges will lie with the fact that market participant segments are by their nature dissimilar. For example, interties currently are scheduled differently than are internal resources and most loads are metered hourly whereas most generators are metered subhourly. WPTF encourages the ISO to be cautious in applying a costing approach uniformly where, by virtue of inherent differences, such an application would perversely result in a substantively different impact.

Market Results should naturally provide incentives

WPTF is currently investigating the extent to which we support pricing designed to “incent behavior”. Marginally priced markets are designed to by their nature incent, and if costs are properly recognized the market results themselves should incent the proper behavior. WPTF would likely not support a policy that allocates costs from one activity to incent behavior regarding another activity, and we expect that if the ISO finds it necessary to provide any added incentives that there may be a gap in its market structure and not a need for punitive costs on a single cost element. WPTF requests that the ISO have a joint session with the MSC on this topic to address the merits of any allocation schemes that may be intended to incent behavior beyond the application of cost-causation.