

Comments to Draft Final Proposal for Flexible Ramping Product

Submitted by	Company	Date
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Brookfield Energy Marketing LP ("Brookfield") appreciates the opportunity to submit the following comments for consideration by the CAISO.

Brookfield continues to support the general direction of the CAISO to develop a bid based co-optimized capacity product. Our concerns outlined in the comments below are focused on the cost allocation portion of the proposal as it pertains to intermittent resources and supply resources as a whole.

CAISO must first focus on lowering integration costs

The CAISO is putting the cart before the horse by attempting to apply cost causation principals to intermittent resources in a market environment that is not designed to be compatible with their unique operating characteristics. This will result in costs allocated to intermittent resources that can't be estimated or managed which will do nothing to incent change to underlying cost drivers. We request the CAISO instead focus on making necessary changes to market design that will reduce the costs to integrate intermittent resources prior to determining "cost causation" for this new flexible ramping product.

We concur with prior comments from CalWEA¹ and others that without first evolving the design of the market to reflect the changing resource mix there will inevitably be costs simply due to the fact that renewable generators can't behave like conventional generators.

The same issues were raised in the Renewable Integration Market and Product Review - Phase 1 stakeholder process by Brookfield and other stakeholders when the CAISO attempted to eliminate the PIRP program and then to change the cost allocation methodology . The CAISO ultimately determined that these changes were premature

¹ See Comments of the Wind Energy Association on the March 15, 2012 CAISO Draft Final Proposal on Cost Allocation Driving Principals

and committed to revisit the PIRP program in 2012 and make modifications that would allow intermittent resources to better manage their costs and risk for imbalance charges. The same principal applies here as well. The CAISO should make these changes first before evaluating changes to cost allocation for any reliability products.

There are a number of steps that should be taken first to reduce the cost of integrating renewable resources to ensure that costs can be managed, all which have been raised previously.

- 1) Modify market timelines to allow intermittent resources to update schedules closer to real-time in order to increase accuracy and reduce schedule deviations. The existing timeline of 37.5 minutes prior to the operating hour is not close enough to real-time to significantly improve accuracy.
- 2) Modify PIRP program to incorporate DEC bidding to encourage wind resources to provide flexible capacity.
- 3) Evaluate further incentives to reduce self-scheduling by supply fleet overall.

After these market design changes are implemented the CAISO can then consider if any, what costs make sense to be attributed to intermittent resources for flexi-ramp and any other products. We appreciate the modification to the proposal to net the imbalances of all supply resources prior to determining the individual allocation to each generator for flexi-ramp costs and request the CAISO to apply this methodology when considering future changes to cost allocation for reliability products going forward.

Changes to cost allocation will have a negative impact on the economics of existing PPAs.

We echo concerns raised by a number of market participants² that the current environment does not allow Independent Power Producers to pass costs through to load. Most existing generators with PPAs receive a fixed price for energy sales with no means to pass through new costs imposed by the CAISO. If the CAISO persists in allocating costs for flexi-ramp to generators then the proposal must include grandfathering provisions for existing PPAs. The start date for the change must also be set to a timeframe in the future to allow market participants an appropriate amount of time to incorporate the change into their contractual arrangements. We have been down this road in regards to the need for grandfathering provisions a number of times in

² See Comments to Cost Allocation Straw Proposal from Iberdrola, NextEra, CalWEA, IEP and LSA

prior forums over the last several years so it is not clear why the CAISO has not yet acknowledged the impact this proposal will have to existing contracts.

Allocation of costs for flexi-ramp should be consistent with other reliability products

There are some additional details of the design of flexi-ramp such as the newly added regional procurement, participation of imported power, and the capacity payment in real-time that need more vetting with stakeholders prior to finalizing the proposal. Since the flexi-ramp constraint is already in place to address the CAISO's near term operational concerns it seems reasonable for the CAISO to spend a few more weeks refining the details of this proposal. Once these design details are appropriately addressed the implementation of the flexible ramping product should not be unduly delayed due to disagreements over cost allocation. The CAISO should move forward by allocating costs for the flexi-ramp product to load and exports consistent with other reliability products. After market design changes are implemented to better allow intermittent resources to manage their costs the CAISO could consider reassessing cost allocation modifications holistically across all reliability products.