

Comments of the
California Municipal Utilities Association (“CMUA”)
Stakeholder Comments on the
Renewable Integration Market Vision and Roadmap (October 11, 2011)

CMUA appreciates the opportunity to provide comments on the updated Renewable Integration market Vision and Roadmap (“Roadmap”). For the purposes of these Comments, CMUA is focused on the Forward Procurement of Flexible Capacity proposals outlined starting at page 11 of the Roadmap.

Although lacking in detail, the Roadmap describes a two pronged approach that envisions: (1) Phase One, an interim mechanism that attempts to build upon the Capacity Procurement Mechanism to procure resources with specific attributes that qualify as flexibility capacity. This approach may include lengthening the duration of procurement; and (2) Phase Two, a permanent, centralized market approach to procurement of capacity to acquire “the full set of attributes” of generation needed to meet operational needs.

It is reasonable for the CAISO to be concerned about grid reliability, including how procurement rules ensure that operational attributes of the generation fleet comport with the need for ramping flexibility and other characteristics required to integrate intermittent renewable resources. It is also reasonable to discuss how longer-term mechanism may be utilized to move away from year-to-year Resource Adequacy decisions given the anticipated longer-term needs to maintain grid reliability. However, by any measure, it appears that the current bilateral Resource Adequacy paradigm has been a marked success in that it has ensured forward resource procurement while maintaining reasonable capacity prices and thus protecting consumers. It should be the remedy of first instance to address these concerns.

Given the timelines for implementation of Phase One set forth in the Roadmap, CMUA believes the CAISO is underestimating both the design complexity, inter-relationship with procurement policy, and outright controversy this proposal will engender. It is unreasonable to expect that final Board Approval for this policy shift and new market mechanism can reasonable be accomplished in a few months.

Second, CMUA has the gravest concerns with this policy direction, both as to the interim and more permanent proposals. Observation of the centralized capacity market approaches in other RTOs has led us to three conclusions: (1) they increase costs for consumers; (2) there is no causal link between the capacity market and the construction of new generation since underlying bilateral contracts are required to underwrite financing in any event; and (3) the options of self-supply are illusory, since bidding rules (increasingly) constrain bidding of self supply below administratively derived proxy prices based on the Cost of New Entry.

The Roadmap indicates that these proposals are not intended to interfere with state or local regulatory rules governing procurement and Resource Adequacy. It is difficult to ascertain how

they will not do so. Given the focus on renewable procurement and the apparent capacity glut beyond established reserve margins, it would appear a real possibility that the CAISO's proposed central procurement role will be the default procurement process for much (if not all) of any non-renewable resources procured for the CAISO Balancing Authority.

CMUA urges the CAISO to take a step back, and reconsider its portions of the Roadmap that include moving toward centralized and CAISO-driven capacity choices as described in the Roadmap.

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