California Independent System Operator
Renewables Integration - Market and Product Review Phase 2

Comments of the California Wind Energy Association On the CAISO Draft Final Proposal on FERC Order 764 Compliance (Dated March 26, 2013)

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The California Wind Energy Association (CalWEA) appreciates the opportunity to comment on the California Independent System Operator's (CAISO) final draft proposal on the FERC Order 764 Compliance market reform.

CalWEA continues to support CAISO's plan to implement fundamental market reforms that, among other benefits, better account for the characteristics of the Variable Energy Resources (VERs) and make use of such characteristics to more efficiently and reliably operate the system. We also appreciate that the CAISO has consolidated several initiatives relating to system flexibility needs into a single initiative under the banner of market reforms for FERC Order 764 Compliance.

Long-Term Resource Procurement Optimization

Again, as we have noted on a number of occasions before, we believe that the essential component that is still missing in the CAISO's new reform proposals is the capability to enable market participants to optimize long-term procurement and scheduling of resources in light of system flexibility needs. When it comes to cost allocation, as we have explained before, we

have no fundamental objection to accurately assigning the cost of providing a service to the source of the cost. However, to the extent that the assigned costs can be tied to a specific generation resource, the cost should be allocated and billed to the Load Serving Entity (LSE) that has contracted with that resource. Further, such costs should be estimated for future resources and made available to LSEs so that they can use them as part of their Least-Cost/Best-Fit (LCBF) bid evaluation process. Once such costs are attributed to specific generation resources at the time of LCBF procurement, those costs have been taken into account in the total cost of the generation. For those generators that survive that total-cost competition, the costs attributable to them should be directly recovered from the purchasing LSE. Unlike generators, who must build worst-case estimates of future scheduling costs into their PPA price, an LSE can pass on to ratepayers only the actual costs that materialize, leaving ratepayers better off.

Better System Flexibility Management Via More Accurate Forecasting

The key to more reliable and efficient system operation is better determination and management of system flexibility needs in any timeframe. A key input to determining and managing system flexibility needs is an accurate prediction of the state of the system in general and the value of load and VER output in particular. In that regard, we strongly support CAISO's plans to forecast and/or accept and use VERs' 5-minute schedules up to 7.5 minutes prior to real-time for its actual system dispatch.

However, realizing that the timing for submission of a baseline 15-minute schedule, which is 37.5 minutes ahead of real time, can still result in significant forecast errors for VERs, we believe that the 37.5-minute timeline should be reduced. We understand that the 37.5-minute timeline was selected because of the inter-BA tagging timeline requirements for out-of-state VERs. Therefore, we request that CAISO consider shortening this 37.5-minute time period as soon as possible if either of the following two conditions arise:

- The inter-BA tagging timeline requirement is reduced from its current 20-minute time period – in this case, the scheduling timeline should be reduced minute for minute with the reduction in tagging timeline requirement; or

- the CAISO notices that there are no 15-minute inter-BA VERs scheduling activities and, as a result, no need for the 37.5-minute timeline to deal with the 20-minute tagging requirement. In this situation, we believe that the scheduling timeline should be reduced to 22.5 minutes (from 37.5 minutes).

Energy Imbalance Market (EIM) Initiative Should be Merged with This Initiative

CalWEA supports CAISO's plan to launch an Energy Imbalance Market (EIM) with PacifiCorp and hopefully with additional balancing authorities in the future. Given the nexus between the EIM and Order 764 Initiatives, and the importance of conserving both stakeholder and CAISO resources, we request that the CAISO consider merging the EIM initiative with this initiative. We would like to see VERs' 5-minute schedules updated across BAs in the same time period as they are done within the CAISO – 7.5 minutes prior to real-time.

Elimination of PIRP Requires Further Examination

CalWEA very much appreciates the fact that the CAISO postponed the elimination of the Participating Intermittent Resources Program (PIRP) until market reforms are put into place that will allow VERs to be able to effectively participate in the market. There are, however, two very important elements of that market reform that should be implemented, in addition to those offered by the CAISO in its February 5 Straw Proposal, prior to considering the elimination of PIRP:

1. Allow VERs to offer their 5-minute schedules closer than 37.5 minutes to real-time (as noted above); and
2. Implement a wide deviation band around the final schedules that will be used to determine real-time imbalance charges.

In addition, CalWEA requests that the current PIRP monthly imbalance settlement cost averaging/netting schemes be kept in place for at least a year after all market changes are fully implemented (currently scheduled for Q4, 2014) to allow for an assessment of the full impact of PIRP's elimination, to make any necessary adjustments to the market changes, and to provide time for VERs to successfully respond to the new market. We again emphasize that the

introduction of PIRP was crucial to the development and financing of independent VERs in California, and its elimination could have a chilling impact on independent VERs' development if not carefully planned and implemented.

Grandfathering of PIRP for Existing Projects Is Critical

Finally, CalWEA believes that elimination of PIRP for existing VERs, many of which have been developed and financed based on the assumption that PIRP would be available, would impose major financial and contractual risks on those VERs. In many cases, power purchase agreements to which the VERs are parties require the VERs to remain in PIRP and be eligible for its monthly netting in order for the intended allocation of deviation risk between the contracted parties (most often with the utility-buyer agreeing to absorb the risk of deviations) to remain in place. If PIRP, as we know it, is changed as the CAISO proposes without grandfathering these projects, there will almost certainly be a widespread disruption in the market, as the contracting parties are forced to sort out the allocation of deviation risk without PIRP and the financing community fears the worst.

Hence, we strongly request that PIRP be grandfathered for all projects with existing power purchase agreements that were executed during PIRP's existence, which, as a result, allocated deviation risk based upon the assumption that PIRP is in place. Many project owners with QF contracts that pre-date PIRP operate small amounts of capacity and do not have the capabilities required to navigate the new, more sophisticated market being contemplated by the CAISO; grandfathering is also important for these projects.

Earlier CAISO proposals to eliminate PIRP would have allowed plants with "signed contracts" (including those not yet built) to stay in the program for the life of the contract. Moreover, the proposed grandfathering limitation is inconsistent with the CAISO's approach in other cases, such as for the RA Standard Capacity Product (SCP) II, where it grandfathered contracts executed before FERC approval of that program, for the entire life of those contracts. The CAISO has provided no justification for eliminating grandfathering for this much more significant program. Moreover, the cost of retaining the PIRP apparatus (given that the CAISO will retain the forecasting program in any event) is minimal.

We realize that shorter-interval scheduling closer to real-time would mean some tweaks to the implementation of the real-time imbalance netting/averaging process in PIRP as it exists today. In that regard, we propose the following PIRP implementation process which we believe is identical to the existing PIRP and reflects only the changes in scheduling timelines and would not put existing PPAs at risk:

1. CAISO would forecast the 3X5 minute schedules 37.5 minutes before RT for all PIRP VERs.

2. CAISO would develop a 15-minute schedule for the resource by averaging the 3X5 minute schedules in Step 1.

3. CAISO would use the same 15-minute schedule as it developed in Step 2 as the instructed dispatch for the PIRP resource to be used in RTD.

4. CAISO would net RT imbalance for metered PIRP resource output against 15-minute schedules as calculated in Step 2 on monthly basis.