

**To: CAISO**  
**From: Steven Kelly, Amber Riesenhuber**  
**Date: August 23, 2012**  
**RE: Flexible Ramping Products Revised Draft Final Proposal**

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The Independent Energy Producers Association (IEP) offers the following comments on the CAISO Flexible Ramping Products Revised Draft Final Proposal (“Draft Final Proposal”) and workshop convened August 16, 2012. IEP supports the CAISO’s goal of integrating market incentives to reduce the cost of deviations. As stated in prior comments, we recommend costs such as these be assigned to those parties driving the resource development decisions and/or those best positioned to manage them.

**Market Redesign is Necessary Prior to Proposing Any Changes on Cost Allocation.**

The CAISO’s Revised Draft Final Proposal contains a number of market features which should result in reducing the costs associated with deviations from schedules. We support these initiatives, including the following:

- (1) Continuation of the netting for PIRP resources; and
- (2) Enabling DEC-bidding from renewable resources, including PIRP resources at their choosing.
- (3) Inclusion of a “dead-band” around which scheduling deviations will be tracked. IEP supports the dead-band concept as it recognizes the inherent uncertainties associated with the operations of any and all generating facilities in real-time. However, the CAISO attempts a “one size fits all” approach that fails to recognize the inherent uniqueness of intermittent resources which by definition have less operational control in real-time over their output than other resource types. This reality suggests the need for a larger dead-band than what is proposed for non-intermittent, so-called “controllable” resources. IEP recommends further study and consideration of a range of dead-bands to be applied to resources based on their inherent operational characteristics.

These market design features should result in lowering the final cost associated with any Flexible Ramping Product, and thus they merit full consideration.

In this regard, consistent with FERC’s thinking on the matter, the CAISO should consider implementing now rather than later the following:

- (1) **Integrating into the overall market a 15-minute scheduling opportunity**, particularly for intermittent resources to enable these resources to provide more accurate and, therefore, more feasible schedules to the CAISO closer to real-time. This market design feature ought to be considered and hopefully implemented as soon as possible as this may prove to be the best tool for reducing the costs associated with renewable integration in general and the Flexible Ramping Product specifically.

To accomplish the full implementation of these design modifications, IEP recommends that the CAISO convene an additional stakeholder workshop to discuss the technical nature of the flexible ramping product, and the need for additional design features to assist in lowering the overall costs

associated with renewable integration and/or the Flexible Ramping Product. We strongly believe that, if these additional market design features were implemented in a timely manner, the costs associated with renewable integration generally and the Flexible Ramping Product specifically will be much smaller than would otherwise occur and, therefore, more manageable to market participants.

**The Costs Associated with the Flexible Ramping Products Should Be Borne By Load.** While IEP appreciates the CAISO's attempt to include additional market changes as part of the flexible ramping product initiative, IEP reiterates its recommendation that the costs associated with the flexible ramping product should be borne by the load.

Our concerns regarding the CAISO's cost allocation proposal have been stated previously: nearly all, if not all, development decisions in California today are driven by long-term power purchase agreements and/or rate-based commitments for utility-owned generation. For the most part, the procurement decisions of the LSEs or the lack thereof, drive the need for these products when they are not appropriately weighed and accounted for in the LSE's procurement decisions. In the absence of clear contractual language in existing and/or future contracts providing for a pass-through of CAISO related costs, whatever their cause, allocating any such costs to electric generators with no basis for cost recovery will impose (a) an added burden on existing contract holders who do not have a reasonable means of cost recovery, and (b) create yet another barrier to the development of new resources particularly those resources such as RPS, CHP and others that are being actively encouraged as part of various public policy initiatives (e.g. RPS, AB32, AB1613, etc.). The more efficient mechanism to implement appropriate cost-assignment for resources procured under long term contracts with LSEs is to assign these costs to the purchasing LSE for their consideration in the long term procurement process. This would be consistent with the California hybrid market structure in place today in California.

**A Transition Period to Assess Costs and Impacts of the Flexible Ramping Product is Necessary**

During the recent stakeholder meeting, CAISO staff indicated opposition to the concept of "grandfathering" existing contracts from the proposed cost allocation impacts, but did indicate a willingness to consider a transitioning mechanism. In the context of transitioning, IEP offers the following recommendation: Prior to addressing cost allocation associated with the Flexible Ramping Product, allow the market redesign features contemplated in the context of the Flexible Ramping Product to take effect. These include the following:

- (1) Continuation of the netting for PIRP resources; and
- (2) Enabling DEC-bidding from renewable resources, including PIRP resources at their choosing.
- (3) Inclusion of an optimal "dead-band" that recognizes the inherent uniqueness of intermittent resources;
- (4) Integrating into the overall market a 15-minute scheduling opportunity, particularly for intermittent resources to enable these resources to provide more accurate and, therefore, more feasible schedules to the CAISO closer to real-time.

After the implementation of these market design features, when the costs of the Flexible Ramping Product are less speculative and presumably less in scope/scale, consideration of the appropriate cost allocation in light of the CAISO's Guiding Principles would be more timely and reasonable.

IEP appreciates the opportunity to comment on the Flexible Ramping Product Revised Draft Final Proposal.

Respectfully Submitted,



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