INDEPENDENT
ENERGY
PRODUCERS
ASSOCIATION

To: CAISO
From: Steven Kelly, Amber Riesenhuber
Date: July 24, 2012
RE: Flexible Ramping Products Supplemental: Foundational Approach

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The Independent Energy Producers Association (IEP) offers the following comments on the CAISO Flexible Ramping Products Supplemental: Foundational Approach (dated July 11, 2012). IEP participated in the workshop on Flexible Ramping Products that was convened July 17, 2012, as well, and those comments are incorporated herein. IEP's main concern with the CAISO's approach is primarily related to how the costs will be allocated. These concerns are highlighted below.

General Overview
Electric generators are dispatched to meet the demands of load. In some instances, their unique operational attributes may make some electric generators "preferred resources" operationally due to various public policy objectives. Yet, the "causation" does not rest primarily with the electric generators. In the absence of demand, the generator would not operate and the CAISO would not need any of the ancillary services or backup support services it acquires. In the absence of legislatively prescribed public policy and poor utility procurement practices, the CAISO might not need flexible capacity products to integrate resources. On the other hand, current public policy, market design, and commercial realities force generation into commercially financeable contracts with load-serving entities ("LSEs") to serve that load, and these contracts have clear terms and conditions for operations and cost recovery. CPUC jurisdictional utilities are required to make procurement decisions based on a "least-cost/best-fit" ("LCBF") paradigm designed to reduce the holistic costs of generation needed to meet the demands of load in a timely and cost-effective manner consistent with state and federal public policy.

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 raises a host of concerns. Allocating these charges to 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.). Rather, 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 realities of the California hybrid market structure in place today in California.

IEP's Specific Comments on Cost Allocation:

IEP reiterates its concerns that the application of the cost allocation structure as currently proposed (a) will not send proper price signals to incentivize behavior where decisions have already been

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made, it will only make the management of existing resources more problematic, (b) may not result in cost allocation to those best able to manage the costs; and (c) may not properly allocate costs responsibility for CAISO market costs to those entities that bear responsibility for procurement decisions that gave rise to these costs, but rather it will reward LSEs for poor procurement practices in the past. IEP elaborates on these concerns below.

RPS Integration Costs Should Be Assigned to the Scheduling Coordinator for the Load
Incremental RPS integration costs are most suitably aligned with long term contracting decisions. Today, generation development typically is supported by long-term, bilateral contracting with Load Serving Entities. In light of this procurement model, the CAISO can and should consider imposing CAISO generated costs on those making the procurement decisions; namely the LSEs, and, thereby more properly align the costs incurred by the CAISO to maintain overall grid reliability with the needs of load for which the activities are undertaken (i.e. true "cost causation").

The current cost allocation proposal creates barriers to generation development and/or needlessly raises the costs of electric bid prices in utility RFOs due to the inherent risk factor of having to bear costs associated with CAISO actions which are inherently unknown and unknowable to the generator in advance. Furthermore, on a going-forward basis, it imposes unneeded additional costs on ratepayers as developers will have to bid into each LSE Request for Offers ("RFO") the *risk* that these unknown and unknowable costs may be borne by their facility over the term of the long-term contract.

Variable energy resources have little control over their generation output or impact on system ramping needs (i.e. decremental generation). Generally the load is the Scheduling Coordinator (SC) for a variable renewable energy resource; however, there are cases where the resource provides the load with SC services. In order to account for these situations, a "load pays" protocol is the appropriate default to capture all contracts, including fossil tolling agreements. The CAISO must properly align costs with actual procurement practices; and, more critically, work with the CPUC to integrate consideration of these costs into the LCBF methodology on a going-forward and transparent basis. Accordingly, RPS integration costs should be assigned to the load.

Grandfather Existing Contracts
RPS integration costs were not known or knowable at the time that many of these contracts were signed. Furthermore, the provision of scheduling service did not contemplate the cost allocation proposal that is before us today. 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 an added burden on existing contract holders who do not have a reasonable means of cost recovery. While it seems the CAISO is still considering the details for addressing existing contracts where language on the flexible ramping product is silent, grandfathering existing contracts is appropriate in order to account for these unknown and unknowable costs that were not contemplated at the time these contracts were negotiated.

A Transition Period is Needed to Assess Costs and Impacts of the Flexible Ramping Product
To the extent the CAISO related costs should be borne by generators in order to incent better LSE procurement practices, then a reasonable means of cost-recovery for CAISO incurred costs (if any) must be made available *prior to any transition* to an environment in which such costs are imposed directly on generators. Otherwise, the CAISO risks undermining grid reliability as electric generators face costs for which they have no reasonable means of cost recovery. A transitional period to accumulate integration cost history followed by a date certain implementation is the most appropriate

mechanism to provide the market with transparency on the magnitude of ramping costs and the timing of cost allocation.

IEP appreciates the opportunity to comment on the CAISO Flexible Ramping Product Supplemental: Foundational Approach.

Respectfully Submitted,

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