INDEPENDENT
ENERGY
PRODUCERS

June 4, 2012

To: **CAISO**

From: **Steven Kelly**
Policy Director

RE: **CAISO Technical Workshop on Flexible Ramping Products**

The Independent Energy Producers Association ("IEP") is pleased to provide the following comments regarding the CAISO's Technical Workshop on Flexible Ramping Products convened on May 29, 2012. The technical workshop focused primarily on (a) product design and (b) cost allocation.

Product Design

Because the product design is in a state of development, IEP awaits further development of the product design proposal (or proposals) before providing specific comments.

Cost Allocation

IEP supports the CAISO initiative to minimize the market costs associated with generation deviations from schedule. Particularly, the proposal to enable generators to re-balance their schedules closer to the hour is welcome.

IEP reiterates its concerns, however, that the CAISO proposal to allocate costs directly to the Scheduling Coordinator ("SC") for generators creates a critical barrier to resource development, particularly for intermittent resources selected by load-serving-entities ("LSEs") to help achieve various public policy objectives (e.g. the CA RPS and AB 32). As a practical matter, these resources are developed and financed based on long-term power purchase agreements (some for up to 25 years). CAISO charges, as proposed, would be unknown and unknowable over the duration of a long-term power purchase agreement. Imposing unknown and unknowable charges directly on generators will create commercial uncertainties that are unwarranted and unreasonable in light of California's public policy objectives.

The problem of imposing costs on electric generators is particularly acute for electric generators that do not have a reasonable means of cost recovery in their existing contracts. Given the complexity of contract re-negotiation, it is unreasonable to expect that existing contracts may be re-negotiated to provide for the full recovery of CAISO related costs (particularly in the near term). Furthermore, imposing these costs (a) will not send proper price signals to incentivize behavior where decisions have already been made, it will only make the management of existing resources that much 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.

Finally, creating a clear barrier to development of policy driven “preferred resources” by imposing unknown and unknowable costs on electric generators is not necessary to minimize the costs to consumers of renewable integration. The reality is that the load is *the* critical factor in today’s market for determining what type of resource is built (e.g. as-available/intermittent, baseload, or peaker), “when” and “where.” Given this reality, the CAISO can achieve an equivalent outcome by informing the marketplace today that any such CAISO costs will be imposed by the SC for Load, which is better positioned to manage this cost, on a going-forward basis. This market signal will alert and incent the load to manage its procurement practices in a manner that is consistent with the existing statutory obligation for achieving the RPS, i.e. using least-cost *and* best-fit standards of review.

We appreciate your consideration of these matters.

Respectfully submitted,

Steven Kelly
Policy Director