**Comments on the Renewable Integration Phase 2 Scoping Paper**
**Independent Energy Producers Association**

**April 29, 2011**

The Independent Energy Producers Association (IEP) appreciates the opportunity to submit the following comments on the *Discussion and Scoping Paper on Renewable Integration Phase 2*, dated April 5, 2011.

The Scoping Paper is designed to stimulate stakeholder discussion of potential market design changes, including new market products and market rules, to accommodate the expected increase in production from variable energy resources (VER) over the next decade. In addition, the Paper addresses the expected revenue challenges faced by conventional resources needed to support the integration of renewable resources. Specifically, the CAISO seeks to develop a comprehensive "roadmap" for the market changes that will be needed over the next few years. Secondly, the CAISO seeks to target specific market design changes or new market elements for Board adoption by late 2011 or early 2012. IEP supports the CAISO's initiative on these critical matters and looks forward to working with you to ensure that procurement processes, market features, and various products and services are in place to ensure attainment of various public policy objectives related to resource mix while maintaining the reliability of the electric grid.

As a point of reference, the CAISO should recognize that California now has nearly 10 years invested in a "California procurement model." The RPS is prescribed in legislation and implemented through various energy agencies (e.g. CPUC rulemakings). Accordingly, the California model is characterized by long-term contracts, and a multitude of procurement obligations imposed on investor-owned utilities (IOUs), retail sellers, and publicly-owned utilities. For the IOUs, standard contract forms have been prescribed, and certain obligations related to contracting have been well established. The effect of this approach has been to incent billions of dollars of investment in California for eligible renewable resources to meet the RPS obligations and non-renewable resources to help ensure that grid is reliable and California's energy needs are met.

As a practical matter, since the legislature and other policymakers have established very prescriptive policy goals related to renewable resource procurement (e.g. 33% of retail sales from eligible renewable resources by 2020), IEP agrees that it is important that the CAISO have a clear roadmap as to how best to achieve those policy outcomes. These goals require significant amounts of eligible renewable resources to be interconnected and operational relatively soon. These additional renewable resources create the need for additional integration services, which must be procured along with the output from renewable resources. Thus, the key now is for the CAISO to develop a roadmap that does not create barriers to the development necessary to achieve these public policy outcomes and that achieves these outcomes in the most efficient and least-costly manner while maintaining the reliability of the transmission grid.

In considering the design of integration products and services necessary to ensure overall grid reliability, as well as the markets in which to procure these products and services, the critical first step is to develop principles that define an appropriate roadmap. IEP offers the following principles for developing the roadmap:

***Regarding market design:***

**In recognition of various statutory prescriptions imposing procurement obligations on IOUs, retail sellers and publicly-owned utilities, the primary means for procuring resources to meet VER integration needs is through the forward markets**. In California, each IOU is directed under the recently signed RPS legislation to procure renewable resources using a "least-cost/best-fit" (LCBF) evaluation methodology [PU Code 399.13(a) (4) (A)].[1] The consideration of LCBF is to include estimates of indirect costs associated with needed transmission investments and ongoing IOU expenses resulting from *integrating and operating* eligible renewable energy resources [PU Code 399.13(a) (4) (A) (i)]. Thus, established policy directs the IOUs to consider integration costs when evaluating project proposals to meet their RPS requirements. Further, legislation and CPUC rules direct the electrical utilities to pursue a portfolio of resources, including medium and long-term contracts, as a primary means of incentivizing infrastructure investment and ensuring overall grid reliability [PU Code 454.5, see particularly subsection (b)(9)]. The CAISO needs to build its roadmap in light of these policy prescriptions.

Needed investment in California for RPS resources obtained by the IOUs is primarily secured through long-term, fixed price PPAs selected through a CPUC-sanctioned LCBF evaluation methodology that is suppose to include the consideration of the integration of VERs.[2] This structure properly incents the consideration of needed integration services in the forward markets and, by doing so, should make supply available to self-provide or bid such products and services in the CAISO's short-term markets (e.g. day-ahead, real-time). Importantly, under the California model, the CAISO's procurement of a significant amount of integration services in its markets may signal the need for changes in the application of the LCBF methodology.

**The CAISO markets play an important role in providing price signals regarding the locational and functional value of transparently defined products required to operate the grid reliably, as California moves toward the 33 percent renewable energy goal mandated by statute.** By clearly defining the specific product characteristics, and designing spot markets to competitively procure those products, the CAISO markets will play an important role in informing the "least cost, best fit" procurement under the California procurement model. The CAISO should expeditiously proceed with making transparent the type and magnitude of the integration services required, and then develop market products that allow the participants to

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[1] Reference to PU Code Section 399.13 refers to language contained in recently enacted SB 1X-2, the 33% RPS legislation signed by the Governor but not yet effective until 90 days after the Legislature's Special Session.

[2] A limited number of generating resources, primarily gas-fired, continue to operate in California either at the "call" of the CAISO or as a result of short-term market signals. However, these CAISO markets are not sufficient to incent new investment in these generating facilities nor in all cases are they sufficient to fully cover operating costs and return on investment. In addition, utility-owned generation continues to be rate-based with an assured cost recovery mechanism and, thus, insulated from market forces.

invest and contract to satisfy these requirements. This approach will allow both existing resources and new technologies to compete for provision of the newly defined services, and will allow LSEs to contract for a portfolio of resources that provide these services, and then self-provide or bid those services into the CAISO markets.

***Regarding Cost Allocation/Cost Responsibility:***

**The financial integrity and viability of the existing contracts should not be undermined by CAISO's need for integration services.** To date, IOUs have entered into a significant number of contracts in order to meet their RPS obligations. These contracts, as noted above, tend to be long-term and fixed price. More importantly, the primary product delivered under the RPS PPA is *energy* from an eligible renewable resource. While the IOUs are entitled, pursuant to CPUC decision, to capture any/all capacity benefits associated with these RPS contracts, these contracts do not contain as a standard term and condition an imbalance energy or ancillary service requirement to firm the resource in real-time. The CPUC has declined to require any such integration or capacity obligation as a standard contract term, as it would likely increase costs for ratepayers compared to the cost of obtaining these services through other means (e.g. purchases from gas-fired generating facilities). Any attempts to impose an integration-service, energy imbalance obligation at this point on existing contracts will undermine the integrity and financial viability of these contracts. Accordingly, existing contracts should be held harmless from new obligations associated with integrating VERs.

**To the extent that the CAISO procures integration services to maintain grid reliability, the costs should be allocated to load pursuant to the principle of cost-causation.** IEP recognizes that forward markets cannot be expected to procure integration products and services fully to match real-time needs, as the real-time CAISO need is a function of real-time VER production, demand, and the hourly dynamics of the overall grid. Accordingly, we recognize the need for the CAISO to be positioned to procure a modest amount of integration products and services in its markets to maintain overall grid reliability.

When the CAISO procures integration products and services to maintain overall grid reliability, it is making these purchases to help meet public policy goals in a reliable manner; thus, these purchases are made on behalf of the load *and* under the expectation that the IOUs have already procured their share of integration services in the forward markets pursuant to the LCBF methodology. Accordingly, to the extent that the CAISO is procuring integration products and services in its markets, the CAISO should allocate the costs of any such procurement to the load. Further, the costs should be allocated to the load on a cost-causation basis in a manner that proportionally reflects the integration needs brought on by the resources procured by load (i.e., an LSE that procures resources that require more integration services should be allocated proportionally more of the integration costs). Applying the obligation on load, using the cost-causation principle, creates additional incentives for the load to secure the integration services in the forward markets where the products and services can be obtained more timely and cost-effectively. Furthermore, any proposal adopted by the CAISO should afford the VER and the IOUs the opportunity to procure and self-provide integration services.

Finally, as noted above, IEP strongly believes that the roadmap principles must be developed as a critical first step. The specific integration products and services that the CAISO needs to acquire, and the markets in which it acquires them, should be guided by these roadmap principles.  Critically, the products and services procured by the CAISO, and the markets to make those products and services available to the CAISO, are the solution.  The solution must, by definition, track with the roadmap principles and not vice versa, or else the CAISO will be inviting a host of problems in its activities and operations.