Iberdrola Renewables appreciates the opportunity to comment on the California Independent System Operator Corporation's ("CAISO") Cost Allocation Guiding Principles – Straw Proposal dated February 14, 2012. Iberdrola Renewables commends the CAISO for its goal of conducting a holistic view of cost allocation but is concerned that the stated guiding principles will be impossible to equitably apply and will inevitably result in discrimination toward Independent Power Producers and hamper renewable development.

An Accurate Analysis and Allocation of Integration Costs is not Feasible

As raised by numerous stakeholders in several CAISO initiatives in recent years, cost causation is relatively simple in concept, but its application is extremely complex. All types of generators impose integration costs in different forms and the current market design broadly allocates these costs (i.e. contingency reserve requirements for large thermal generators, standardized trading products requiring block schedules, gas scheduling restrictions, nuclear operation restrictions, large hydro dissolved gas limitations, etc.). In order to ensure nondiscriminatory treatment of all generators going forward, the CAISO would be required to unwind its settlement structure and conduct significant analysis to accurately identify all existing integration costs to ensure they were properly allocated. The broad allocation of integration costs for traditional generators has been acceptable given general agreement that the same generators imposing costs on the system also provide commensurate benefits. This same consideration should be given to renewable generators, particularly in light of California's aggressive Renewable Portfolio Standard requirements.

A recent variable generation integration cost study by the National Renewable Energy Lab ("NREL") concluded that an accurate calculation of integration costs is extremely complex and questioned whether integration analysis was even worthwhile[1]. Other ISOs have stumbled to this conclusion as evidenced by the ERCOT's recent abandonment of its proposal to directly allocate reserves to wind generators.

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[1] Cost-Causation and Integration Cost Analysis for Variable Generation, National Renewable Energy Laboratory Technical Report, NREL/TP-5500-51860, Contract No. DE-AC36-08GO28308

Independent Power Producers will be Harmed

Generation resources are built for the benefit of load. In theory, load pays whether costs are broadly allocated to load through CAISO market charges or directly allocated to a generator and passed through via Purchased Power Agreements (“PPAs”). In the current environment, however, costs allocated to the generator will not be passed through to load by Independent Power Producers. The pro forma PPAs of California utilities require the generator to accept virtually all responsibility for integration costs and provide no reasonable means for cost recovery of these charges. In addition, existing generators with a PPA likely have a fixed price for energy sales with no mechanism to pass through any new costs imposed through a revised CAISO cost allocation methodology. Direct allocation of additional costs will negatively impact the economics of these long-term agreements and will present a significant barrier to renewable development. These same scenarios do not exist, however, for the California utilities who build renewable generation facilities as these utilities can pass through all relevant charges to their customers. As such, any direct allocation of integration costs by the CAISO will inevitably result in an unequal allocation, one that harms Independent Power Producers and negatively impacts the renewable development market – ultimately harming consumers.

Focus should Remain on Implementation of Mechanisms to Lower Integration Costs

The CAISO faces significant challenges as the California system operator and the time and energy of CAISO personnel should be focused on initiatives that will bring the greatest benefit to the system and its consumers. Instead of embarking on what is certain to be a highly contentious and extremely complex initiative to determine an equitable cost allocation methodology, the CAISO should instead focus its resources on the implementation of market tools that will lower the cost of integrating renewable generation. Iberdrola Renewables participates in numerous markets across the United States and encourages the CAISO to review the steps taken by the MISO and PJM markets to successfully integrate large quantities of variable generation. Specifically, Iberdrola Renewables would like to see changes implemented in the CAISO that will allow variable generators to fully participate in the market – including the ability to set price in real-time and receive make-whole payments when dispatched down, implement scheduling mechanisms that incent better forecasting to minimize expose to imbalance charges, and institute economic curtailments for all types of generation.

Conclusion

It would be difficult – if not impossible – for the CAISO to accurately and equitably allocate integration costs. The CAISO’s resources should instead be focused on developing market mechanisms that will reduce the cost of integrating renewable resources for the benefit of all consumers.