



April 23rd, 2012

Submitted by email to the CAISO at FRP@caiso.com

RE: LSA comments on “Draft Final Proposal - Flexible Ramping Product”

The Large-scale Solar Association (LSA) hereby submits these comments about the CAISO’s April 10th “Draft Final Proposal – Flexible Ramping Product” (Proposal) and the discussion about the Proposal at the April 17th stakeholder meeting. LSA’s comments address the allocation of Flexible Ramping Product (FRP) costs in the Proposal.

Overview of LSA comments

LSA’s comments in this submittal are limited to: (1) the assignment of costs to generator Scheduling Coordinators; (2) the lack of a grandfathering component; (3) exclusion of ramping variations in a beneficial direction from the cost-allocation mechanism; (4) the need for further testing of the proposed cost-allocation methodology before implementation; and (5) import-resource qualification to provide FRP; and (6) the potential for regional allocation of FRP costs. LSA’s specific recommendations are summarized below and explained further in the remainder of these comments.

- If the CAISO proceeds with the allocation of FRP costs apportioned to internal generation on a resource-specific basis, then the CAISO should reconsider its allocation of such costs to generator Scheduling Coordinators (SCs), instead of the SCs of the Load-Serving Entities (LSEs) buying the resource output. Allocation to LSEs based on the resources in their respective portfolios would be most consistent with the CAISO’s cost-allocation principles and the current CPUC procurement process, and it would still allow bilateral contract parties to determine the optimal responsibilities for resulting costs and risks.
- The CAISO should incorporate a grandfathering element into the Proposal for resources with contracts where the buyer is not the SC. Sellers under those contracts could not have anticipated these costs and have no realistic way to recover them, and their contracts do not allow them to control their ramps in order to manage their exposure to the new costs.
- The pricing formula should be revised to charge only for deviations that contribute to the CAISO’s FRP need (i.e., are in the direction of the need), and not those that actually help (i.e., are in the opposite direction of the need). This would be consistent with several of the CAISO’s new cost-allocation principles, including the “cost causation” principle that the CAISO believes is most important to FERC.
- The CAISO should provide for a substantial testing effort – both in the near term, to ensure that the allocation method between major groups (load, internal generation, imports) is equitable, and in the implementation process, to ensure that the new “reference profile” concept and the other new elements in the Proposal are workable.

- The CAISO should allow import resources to participate in the FRP market. This would expand the pool of FRP suppliers – perhaps significantly – and could help ensure that the services that the CAISO needs are provided at the lowest possible cost.
- The CAISO should remove the portions of the Proposal that address potential regional procurement and cost allocation, because there is insufficient time on the CAISO’s current schedule for the CAISO to define this new element and for stakeholders to fully understand the implications.

LSA continues to be deeply troubled about the lack of coordination of the FRP cost-allocation design with the CPUC’s procurement process, but we have commented on that before and will not repeat those concerns outside the upcoming FERC process.

Allocation of costs to generator or buyer SCs

LSA again requests that the CAISO consider allocating FRP costs to the SCs of the LSEs buyers from applicable resources – the same allocation method the CAISO last proposed for the “PIRP shortfall” in the RI-MPR1 initiative, and a method supported by SCE, among others, at the stakeholder meeting.

Frankly, the “cost causation” principle that the CAISO believes that FERC considers primary can be used to justify an allocation to either the resource or to the LSE buyer.

As noted by the CAISO, allocation to generators (and their SCs) could be justified using this principle, because their actions can contribute to the CAISO’s need for FRP services. However, allocation to LSE buyers is also consistent with this principle, because LSEs (under the guidance of their regulators) decide the mix of resources in their portfolios and the long-term behavioral incentives in their PPAs, which in turn will drive the need for integration services like FRP.

Moreover, allocation of FRP costs to generators risks violation of the cost causation principle, since the CPUC has already indicated that its procurement framework would consider integration costs like FRP, so CAISO allocation of such costs to generators would risk double-counting. The Proposal includes no provision for coordinating with the CPUC to change this approach to resource procurement, and double-charging of FRP or other charges most certainly should be considered a violation of the cost-causation principle, even if it occurs through the combination of CAISO and CPUC processes and not just in CAISO markets.

Thus, the CAISO should look beyond the cost-causation principle in deciding how to allocate FRP costs, and LSA believes that allocating costs to LSEs (through their SCs) would be more consistent with the other cost-allocation principles.

Before addressing that point, (assuming that the CAISO still has an open mind on this subject), LSA wishes to address some mistaken assumptions that the CAISO may have regarding this proposal. Specifically, based on its statements at the stakeholder meeting, the CAISO seems to believe that allocating costs to the SCs of LSE buyers would somehow interfere with bilateral contracts between sellers and those buyers. That is simply not true.

The CAISO has not explained the basis for its belief (or why, for example, it did not appear to have similar concerns about the RI-MPR1 PIRP proposal), or why a significant buyer like SCE would not have such concerns. In fact, the CAISO cost-allocation proposal would greatly influence bilateral negotiations by setting an untenable starting point for generators.

As shown at the last stakeholder meeting, the CAISO itself cannot estimate FRP costs (much less other integration costs that might arise in the future), so it's unrealistic to expect that suppliers would somehow be able to estimate them and incorporate them into their price bids to LSEs. Suppliers cannot finance a project with unbounded risk, and they will be thus be forced to trade other terms for this necessary protection by the LSE for the exposure. Certainly, LSEs (especially the large LSEs that account for the vast majority of bilateral energy contracting) are in a better position to estimate these costs than individual generators.

Thus, the CAISO cost-allocation proposal violates the "manageable" cost-allocation principle by allocating costs to the party in the bilateral contracting process that is least able to either estimate or manage the risks or costs. This problem should lead the CAISO to reconsider this aspect of its FRP cost-allocation proposal and change the allocation to LSEs, based on the resources in their individual portfolios.

Grandfathering of prior contracts

If the CAISO persists in allocating FRP costs to generator SCs, it should incorporate a grandfathering element into the Proposal for resources with older contracts where the buyer is not the SC. Specifically, the CAISO should provide that FRP costs associated with those resources be allocated either to the market as a whole or to the LSEs buying from the resources. This would be consistent with past significant CAISO market changes, like the 2012 Grid Management Charge (GMC) redesign and the Resource Adequacy Standard Capacity Product (RA-SCP) implementation.

Sellers under those contracts could not have anticipated these costs and have no realistic way to recover them, and their contracts (which often require them to produce all the energy that they can) do not allow them to control their ramps in order to manage their exposure to the new costs. Thus, the cost-allocation principle of "incentivize behavior" does not apply, and a grandfathering provision would be one way to avoid violating the "manageable" principle.

The CAISO's statements at the stakeholder meeting that the current stakeholder process has provided sufficient time and opportunity for parties to these arrangements to have revised their contracts were quite astounding and inaccurate. It is unreasonable to expect that parties to long-term contracts would seek to revise them based on preliminary proposals in a CAISO stakeholder process, contract negotiations often takes months (and approval takes many more months), and in any case suppliers would have absolutely no leverage to force buyers to agree to such changes.

Charging only for harmful deviations

The pricing formula should be revised to charge only for deviations that contribute to the CAISO's FRP need (i.e., are in the direction of the need), and not those that actually help (i.e., are in the opposite direction of the need). Thus, downward deviations should not be charged in intervals when the CAISO is using Upward FRP, and upward deviations should not be charged in intervals when the CAISO is using Downward FRP. This would be consistent with these cost-allocation principles:

- “Cost causation” – deviations that are actually helpful should not be charged;
- “Accurate price signals” – resources should be encouraged to deviate in a manner that would be helpful to the system; and
- “Manageable” – resources should be able to limit their FRP cost exposure through such beneficial deviations.

LSA suggested this revision in its last set of comments. The Proposal does not address LSA or other stakeholder comments, and the CAISO mentioned only vague “gaming” concerns with this concept at the stakeholder meeting.

However, the CAISO did not explain this concern, or whether adjustments to other parts of the Proposal could address them. It is hard to see how market participants could game a legitimate response to FRP price signals, and the CAISO should either explain itself or reverse its rejection of this element.

Testing of new Proposal elements

LSA continues to support testing of the proposed cost-allocation elements, both in the near term and prior to implementation. The CAISO cannot be sure that the design will yield just and reasonable results without such analyses.

First, as LSA recommended in its last comments, the CAISO should test the cost allocation in the Proposal on a potential data set to determine if the methodology would work as intended and not unduly discriminate between generation sources or between generation and load. For, example, if the CAISO determines that there could be an increase of 20% in FRP need due to generators generally or VERs specifically, but 80% of FRP costs would be allocated to generators or VERs under the proposed allocation methodology, that result should lead the CAISO to reconsider the proposed methodology (e.g., as a violation of the “sending accurate price signals” cost-allocation principle).

Under a more rational timeline, this testing would take place before the Proposal is finalized. However, the timeline that the CAISO is following for this process may not allow for such testing. Assuming that is the case, the CAISO should conduct this testing after the Board decides on the Management proposal but before FERC rules on a subsequent CAISO filing.

Second, the pre-implementation activities should provide for a significant period of testing the new methodology, with issuance of advisory results. In particular, the optional submission of a reference profile for generation resources is new and untested, and there has been very little time in this process to consider potential complications since the concept was only introduced in March. Pre-implementation testing will ensure that the new methodology is working as designed before real economic consequences are imposed in actual settlements.

Import provision of FRP

At the stakeholder meeting, there were questions about the eligibility of imports to provide FRP in the market, and the CAISO response was unclear. LSA believes that the final Proposal should explicitly allow import resources to compete with internal resources to provide FRP, for several reasons.

Imports can already provide Ancillary Services to the CAISO BAA, and there is no apparent reason why they should not be able to do the same for FRP. There are flexible resources in Nevada and Arizona, for example, that may effectively and economically provide the capabilities that the CAISO needs. Their addition to the pool of eligible resources should increase competition and lower costs for FRP, to the benefit of CAISO-area loads and resources paying those costs.

In addition, their geographic location (which would use many of the same transmission paths to load as VER energy) might make them ideal “fillers” to counteract VER ramps. For example, large ramps down of solar resources along the I-10 corridor could be countered by Upward FRP dispatches of resources delivering to Palo Verde or Eldorado without creating additional transmission congestion.

For these reasons, the final Proposal, and the implementing tariff language, should provide for maximum eligibility of import resources in the FRP market process.

Potential regional FRP procurement and cost allocation

There is nothing preventing the CAISO from introducing well-considered proposals in the future for regional FRP procurement and/or cost allocation. The current framework for Ancillary Services (A/S) regional procurement and cost allocation, which features defined rules and procurement regions, was carefully developed through an extensive stakeholder process, and the CAISO is free to initiate and conduct such a process if it determines that the FRP should include this feature.

However, LSA shares the concerns of other stakeholders that the introduction of this element at such a late stage in the process, with undefined rules and potential regions, is inappropriate. LSA is concerned, for example, that this concept could be used to apply disproportional costs to renewable-energy projects, which tend to be concentrated in certain geographic regions, without adequate justification or oversight.

LSA recommends that the CAISO focus on rationalizing its current FRP Proposal, including filling in the gaps and testing its current elements (as described above), before incorporating any regional features. Alternatively, if the CAISO wants to include regional features, it should extend this stakeholder process, clearly explain the reasons why it believes that regional elements will be needed, and set forth proposed rules and regions.