July 24th, 2012

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

RE: LSA comments on CAISO Technical Workshop on Flexible Ramping Product

The Large-scale Solar Association (LSA) hereby submits these comments on the CAISO's July 11th document, Supplemental – Foundational Approach: Flexible Ramping Product (Proposal) – the CAISO's latest version of the proposed Flexible Ramping Product (FRP) framework – and the discussion at the July 17th stakeholder meeting about the Proposal. Consistent with its earlier comments in this stakeholder process, LSA's remarks here address the allocation of FRP costs to generators and/or their Scheduling Coordinators (SCs).

LSA supported the CAISO's earlier decision to take additional time to review both the overall FRP framework and the specific program details. LSA was hopeful that this additional review would result in more serious consideration of its past proposals, such as: (1) assignment of FRP costs to the SCs of the buyers of energy from the applicable generating projects; or (2) explicitly coordinating implementation of any resource-specific FRP charges with the California Public Utilities Commission (CPUC) procurement process to avoid potential double-charging of FRP costs to generators.

While LSA continues to recommend that the CAISO incorporate these prudent suggestions into the FRP design, the CAISO appears intent on proceeding with a resource-specific allocation of FRP costs. Therefore, LSA's comments (which are summarized below and explained further in the remainder of this document) do not repeat those arguments in detail; instead, these comments address other cost-allocation elements in the Proposal. LSA recommends the following changes to the Proposal:

- **Eliminate FRP charges for schedule deviations in the direction that helps the CAISO manage the system.** At a minimum, the CAISO should cap charges for deviations in the "right" direction at the level for charges for deviations in the "wrong" direction.
- **Coordinate implementation of any resource-specific FRP charges with the scheduling changes required in (reference to FERC order).** LSA has serious concerns about the proposed third-party resource-specific reference profiles – especially the potential accuracy of such profiles – and the equity of holding Variable Energy Resources (VERs) responsible for that accuracy (or lack of it). Concurrent implementation of these more flexible scheduling practices would address both LSA's concerns about this element of the Proposal and the potential gaming concerns that apparently motivated it.
- **Incorporate a grandfathering element for resources with contracts where the Load-Serving Entity (LSE) buyer is not the SC.** The CAISO's proposals to allow transfer of FRP cost responsibility to the buyers' SCs are not sufficient to ameliorate this concern, since those suppliers will have no leverage to effectuate such a transfer.

<u>FRP charges for helpful scheduling deviations</u>

As stated in its prior comments, LSA still believes that the CAISO should not charge at all for schedule deviations in the "right direction" (that help the system by moderating the net load ramp). The CAISO should encourage these deviations, and not send price signals that would reduce them (and thereby raise overall system costs). The CAISO has not adequately explained its reasons for rejecting this suggestion.

In fact, because of the cost-sharing aspect of the cost allocation, it is possible that charges for deviations in the "right" direction will actually be higher per MWh than those in the "wrong" direction – i.e., if there are few deviations in that "right" direction, so the costs would be spread over few MWh. If only a few resources are helping the CAISO, it seems perverse for the CAISO to charge them more as a result.

The new proposed hourly FRP cost allocation granularity <u>might</u> increase the likelihood that FRP charges for deviations in the "right" direction will at least be lower than those in the "wrong" direction, but that is not certain. At a minimum, there should be a cap on charges for deviations in the "right" direction at the same level as deviations in the "wrong" direction.

LSA understands that the CAISO is trying to avoid multi-tiered FRP charges. However, it seems a matter of basic fairness not to penalize generators that are helping the CAISO manage its system by charging them more than those whose deviations harm the system.

<u>Proposed revisions to the VER "baseline" profile</u>

The Proposal transfers responsibility for producing the 15-minute forecast that will be used to measure VER schedule deviations, from the VER SCs to the CAISO Forecast Service Provider (FSP). While this proposal may address some issues related to gaming, as discussed below, it raises other significant problems that must be resolved before the Proposal is finalized.

Fundamentally, LSA believes that it would be fundamentally unfair to hold generation resources financially responsible for the accuracy of forecasts that they cannot control or influence. As stated in its prior comments, LSA understands and acknowledges the concerns expressed by some that the CAISO's prior proposal for VER submission of a reference profile, separate from the energy schedule, could allow gaming. For example, in hours when downward FRP (FRD) costs are expected to be higher than upward FRP (FRU) costs, VERs might submit unrealistically high profiles in order to minimize the chances of deviations above those reference levels and their resulting FRD charges.

However, LSA has very serious concerns about the ability of the FSP to provide 15-minute profiles for every VER, 37.5 minutes in advance, at an accuracy level that approaches the proposed 3% FRP tolerance threshold. The available data on such forecasts in the Participating Intermittent Resource Program (PIRP) do not indicate accuracy levels even close to this, even on an hourly basis.

At a minimum, the CAISO should not implement any third-party baseline methodology without first verifying FSP ability to produce accurate 15-minute facility-specific forecasts within the proposed FRP tolerance thresholds. If the FSP cannot meet the proposed thresholds on a reliable basis, the CAISO should adjust those thresholds to match the achievable accuracy level.

In addition, VERs and their and their SCs must receive advance notice of any third-party 15-minute baseline production amounts, in sufficient time to allow output adjustments by the generators in response. Basing FRP charges to VERs and their SCs on forecasted baseline amounts that are not even known to them at the time would (in addition to violating a number of the CAISO's new cost-allocation principles) add to the accuracy and accountability problems described above.

However, the CAISO should acknowledge that the need for any reference profiles at all is driven solely by the current inflexible CAISO scheduling and settlement system. The best way to address these concerns is coordinating implementation of any generation-specific FRP charges with implementation of the 15-minute VER scheduling option required by FERC in Order No. 764 in Docket No. RM10-11-000 ("Integration of Variable Energy Resources"), which was issued June 22nd.

There is no reason to go through the trouble of refining and implementing what will likely be only a temporary third-party framework, particularly when it raises such serious accuracy and equity problems, when the CAISO must implement a more flexible scheduling process anyway that should also remove any gaming potential. Instead, the CAISO should just coordinate the two changes to avoid these serious issues, even if it causes some delays in implementing the resource-specific elements of the FRP cost allocation.

Grandfathering element for resources with contracts where the buyer is not the SC

As LSA has stated before, sellers under these contracts could not have anticipated these costs and have no realistic way to recover them. Moreover, their contracts generally require them to produce all the energy that they can, i.e., they cannot their ramps or schedule deviations in order to manage their exposure to the new costs.

The ability to transfer FRP cost responsibility from the seller to the buyer does not mitigate this problem, because those sellers have no leverage to force their buyers to accept this responsibility. Likewise, any transitional mechanism to allow for "renegotiation" of contracts – an option that has been discussed before in this stakeholder process – would not mitigate this problem either, because those sellers have no leverage to force their buyers to accept such contract revisions.