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Comments of Northern California Power Agency
Discussion & Scoping Paper on Renewable Integration Phase 2

April 29, 2011

Northern California Power Agency ("NCPA") provides the following comments on the Discussion & Scoping Paper on Renewable Integration Phase 2 posted by CAISO on April 5, 2011. As discussed in the scoping paper CAISO envisions two major objectives for Phase 2 of the Renewable Integration stakeholder process. First, CAISO seeks to develop a comprehensive framework or "roadmap" for the market changes that will need to be designed and implemented over the next several years pending the outcome of discussions with stakeholders. Second, the CAISO seeks to target specific market design changes or new market elements for completion, including approval by the CAISO Board, by the end of 2011 or early 2012.

Process

NCPA supports CAISO's proposal to develop a comprehensive framework or roadmap to coordinate the design and implementation of market products and changes that could result from the Renewable Integration stakeholder process. NCPA believes that a coordinated "plan of attack" is required to ensure both CAISO and market participant resources are used in an efficient manner. A number of the concepts discussed in the scoping memo could have significant impacts on the CAISO market structure; therefore such concepts must be fully vetted with market participants.

Enhancements to the Existing Market Design

Hourly Contingency-Only Election for Operating Reserves

NCPA supports the use of contingency-only designations for spinning and non-spinning reserves. NCPA believes allowing market participants to make hourly elections of contingency-only operating reserves could increase the quantity of operating reserves that are made available to CAISO for economic dispatch, while also preserving a market participant's ability to manage the operation of its facilities. NCPA does not support discussion of limiting a market participant's ability to designate operating reserves as contingency-only. Any limit could have the opposite and unintended consequence of reducing the amount of operating reserves made available to the market because market participants may be less willing offer operating reserves if they are unable to designate such as contingency-only. NCPA encourages CAISO to continue to explore what software changes are required to enable hourly designation of contingency-only operating reserves, but NCPA does not support limiting a market participant's ability to designate operating reserves as contingency-only.

Multi-Settlement System for Ancillary Services

Introducing a multi-settlement system for ancillary services to provide more flexibility for market participants to buy back and sell ancillary services closer to real-time would enable a market participant to adjust its portfolio closer to real-time in response to current market conditions. NCPA supports the general concept of buying back ancillary services closer to real-time; therefore NCPA encourages CAISO to explore the details of how this modified settlement would work under the current market design.

Enhancements to RUC

NCPA agrees with CAISO that more discussion is needed to determine if the RUC enhancements described in the scoping paper provide enough benefits to be considered a higher priority over other enhancements that may be needed to support renewable integration.

New Spot Market Products

Pay for Performance Regulation

NCPA supports the general concepts discussed by CAISO regarding pay for performance regulation. To the extent a resource is capable of providing a higher quality product it should be properly compensated based on the value of the service. Resources that are physically capable of providing more regulation over a set period of time, due to a fast regulation ramp rate, likely do provide more Area Control Error (ACE) correction to system operators as compared to slower ramping resources. Under the current market structure resources with this capability may not be incented to make this flexibility available to the CAISO because they do not receive increased compensation in exchange.

Regarding development of a two-part payment, including a capacity payment and performance payment with accuracy adjustment, NCPA agrees that the current market structure under which the CAISO co-optimizes energy dispatch and reserve procurement in both the day-ahead and real-time market already reflects cross-product opportunity costs. NCPA also agrees that any form of "mileage payment" should include minimum threshold performance standards and accuracy adjustments to ensure that resources that are “fast” also accurately respond to CAISO’s dispatch instructions.

NCPA encourages CAISO to further explore the details of how pay for performance regulation would work under the current market design.

Load Following Reserve

NCPA, which operates as a Load Following Metered Subsystem in the CAISO Balancing Authority Area, is experienced in using Load Following capacity to balance its system needs in real-time. Therefore, any new obligation under which Load Serving Entities are required to procure Load Following reserves should recognize that NCPA is contractually obligated to self-provides its required Load Following capacity; therefore any proposed market design should include the ability to self-provide Load Following reserves, as is done with all other Ancillary Service products scheduled in the CAISO.

Allocation of Integration Costs

As stated in the CAISO scoping paper the integration of substantial amounts of VER capacity into the supply fleet poses several challenges that will tend to increase the costs of meeting load and reserve requirements and maintain reliable operation. Therefore, NCPA agrees that these integration costs should be allocated to VER capacity that arguably is the driver of such costs. Integration costs should be allocated to resources based on performance rather than simply based on a resource category to provide an economic incentive for the development of technologies that are better able to manage variability and reduce impacts on grid operation. In the past, arguments have been made that integration costs should be allocated or socialized to load because in the end load will bear this cost through market pricing. NCPA rejects this argument because socializing VER integration costs to load does not properly assign such costs to the load that actually takes service from VER capacity. For example, many of NCPA’s members have made significant investments in renewable energy development for many years and may have no need to rely on newly develop VER capacity to meet their respective renewable goals. By allocating integration costs directly to VER capacity, such cost will be included in the sales price of VER capacity, and those Load Serving Entities who contract for new VER capacity will indirectly bear any associated integration costs.

NCPA believes that allocation of integration costs is an important aspect of this stakeholder process, and should be assigned a high rank.

Uneconomic Adjustment Priority for VERs

NCPA does not support suggestions by stakeholders that the generic self-schedule classification be subdivided by the addition of a new priority level for renewable resources, so that when a renewable resource and a conventional resource are both operating at their self-scheduled levels and are equally effective in mitigating the congestion or over generation problem the conventional resource will be decremented first. This concept would result in discriminatory treatment against conventional resources, and should not be included as part of this market initiative.

Longer Term Procurement Issues

Capacity Market

NCPA does not support implementation of a centralized capacity market. As described by the CAISO, this market initiative is focused on the development of "non-generic" capacity that has specific performance characteristics that are needed to help integrate VER capacity into grid operations. The existing Resource Adequacy program has proven to be very effective in supporting reliable grid operations; therefore due to the added costs and complexity associated with a centralized capacity market NCPA strongly believes that any consideration of a centralized capacity market is out of scope regarding this initiative.