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Comments of Northern California Power Agency
Renewables Integration, Market Vision & Roadmap
Revised Straw Proposal

September 26, 2011

Northern California Power Agency ("NCPA") provides the following comments on the Renewables Integration Market Vision and Roadmap Revised Straw Proposal posted by CAISO on August 29, 2011. In its revised straw proposal CAISO proposes a phased implementation schedule broken down into short-term enhancements, mid-term enhancements and longer-term enhancements. This strategy is intended to leverage existing market design features and/or currently proposed initiatives to ensure that enhancements to the market are done in a cost-effective manner. In general, NCPA agrees with the phased approach proposed by CAISO. Regarding what specific elements will be included in each phase, NCPA believes further stakeholder discussion is required to determine such, but NCPA supports the proposed concept.

The following comments are focused on specific elements of the revised straw proposal.

Guiding Principles

As discussed in detail in NCPA's prior comments, NCPA strongly supports the addition of the Cost Causation principle to the guiding principles of this initiative. It is very important that costs be allocated based on the principles of cost causation to ensure correct incentives are provided to both load and generation to better manage variability, and the impact of renewable integration.

Enhanced Contingent/Non-Contingent Operating Reserve Management

CAISO proposes to enhance the process used to procure and manage contingent and non-contingence Operating Reserves. Specifically, CAISO proposes to enhance the CAISO market software to retain the non-contingent status of Operating Reserves procured in the day-ahead market even if incremental contingent Operating Reserves are purchased from the resource in real-time. As part of the contemplated software enhancements, NCPA suggests that CAISO also enhance its software so that the IFM will properly recognize the selection of the contingent only Operating Reserve flag in the day-ahead market. Currently, a Scheduling Coordinator can flag Operating Reserves in the day-ahead market as contingency only, but if the Scheduling Coordinator also submits an energy bid curve with such offer, the IFM software will effectively ignore the contingency only flag selection and cooptimize the offer. To work around this issue, in order to retain the contingency only status of Operating Reserves offered in the day-ahead market, such reserves must be offered with no energy bid curve in the day-ahead market, which effectively prevents the IFM from attempting to cooptimize the offer. NCPA suggests that as part of the contemplated enhancements, CAISO also include the enhancement of making the contingency flag effective in the day-ahead market even if an energy bid curve associated with the Operating Reserve offer is provided by the Scheduling Coordinator.

Flexi-Ramp Product

- *How will the cost of flexi-ramp be allocated*

NCPA agrees with opinions express by many other stakeholders that renewable integration costs should be allocated to those driving the need based on actual performance. To facilitate further discussion, CAISO offered two concepts for allocating the cost of flexi-ramp procurement to load and generation based on variability, or the measure of uninstructed deviations. In this regard, NCPA operates in the CAISO market as a Load Following Metered Subsystem which is required to simultaneously match supply and demand in real-time by managing its portfolio of resources. If NCPA is unable to balance supply and demand in its portfolio within a tight deviation band, NCPA is subject to significant deviation penalties for non compliance. Therefore, to the extent that flexi-ramp costs are allocated to Scheduling Coordinators based on a combination of load and/or generation uninstructed deviations, NCPA operating as a Load Following Metered Subsystem should only be allocated such costs based on its net uninstructed deviations of load and generation, which reflects NCPA's net portfolio deviations that are either supplied to or supplied from the CAISO market. This allocation basis is already recognized and implemented for other CAISO charges based on uninstructed deviations, and has been found to be just and reasonable.