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## **Comments of Northern California Power Agency Flexible Ramping Products – Straw Proposal**

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Northern California Power Agency (“NCPA”) provides the following comments in response to the Flexible Ramping Products straw proposal posted by CAISO on November 1, 2011. As discussed in the straw proposal, the purpose of this stakeholder effort is to develop market based Flexible Ramping Products to address certain operational challenges. Many details of how the Flexible Ramping Product will be procured and dispatched are not provided in the initial straw proposal; therefore NCPA’s comments herein are focused on how Flexible Ramping Product costs are proposed to be allocated.

### **Cost Allocation**

As discussed in Section 4.1 of the straw proposal, the design of the Flexible Ramping Products cost allocation should create the correct incentives for market participants to reduce CAISO’s need to procure Flexible Ramping Products. Also, the cost allocation method should be as consistent as possible with the principles of cost causation. For these two reasons NCPA disagrees with CAISO’s cost allocation proposal as it may apply to Metered Subsystems that have elected to Follow Load in accordance with the CAISO Tariff. For the reasons explained below NCPA believes that a separate method for allocating Flexible Ramping Product costs to Load Following Metered Subsystems must be incorporated into the Flexible Ramping Product proposal.

Pursuant to the CAISO Tariff and its respective Metered Subsystem Agreement, a Load Following Metered Subsystem is required to balance demand and supply in real-time, and to maintain such balance within a tight deviation band in order to avoid significant deviation penalties. If a Load Following Metered Subsystem is unable to balance demand and supply during each 10-min settlement interval, it will be assessed significant deviation penalties for such violation. Such deviation penalties are designed to provide a strong financial incentive to the Load Following Metered Subsystem to comply with its contractual obligations. Therefore, allocating Flexible Ramping Product costs to a Load Following Metered Subsystem based on the methods proposed by

CAISO would be inconsistent with cost causation, and would provide incorrect incentives.

A Load Following Metered Subsystem is required to adjust its supply portfolio during every 10-min. interval to respond to changes in its load obligations. For example, if a Load Following Metered Subsystem's load increases 10 MW during a 10-min. interval the Load Following Metered Subsystem will increase its generation during the same 10-min. interval to supply its increasing demand. To the extent the Load Following Metered Subsystem's load decreased 10 MW during a 10-min. interval the Load Following Metered Subsystem will decrease its generation during the same 10-min. interval in order to balance its portfolio. Also, unlike non-Load Following Metered Subsystem entities whose load is settled on an hourly basis, as described in Section 4.2 of the straw proposal, a Load Following Metered Subsystem's load is settled each and every 10-min. interval, and the CAISO calculates the associated deviation at the same settlement granularity. A Load Following Metered Subsystem is required to install CAISO settlement quality metering at all of its interchange points with CAISO.

Based on this load following obligation Flexible Ramping Product costs must be allocated differently to Load Following Metered Subsystems. First, the CAISO proposes to allocate Flexible Ramping Product costs to one of three distinct buckets; 1) load, 2) deviations from hourly schedules, and 3) deviations from CAISO dispatch instructions. Second, CAISO proposes to allocate costs from each bucket based on separate methods. Costs allocated to the load bucket, which CAISO simply proposes to proportionally allocate to load, should only be allocated to a Load Following Metered Subsystem based on its portfolio Net Negative Uninstructed Deviation. Since a Load Following Metered Subsystem follows its load in real time, only its Net Negative Uninstructed Deviation for each interval represents the net amount of energy the Load Following Metered Subsystem purchases from the CAISO. This is fully consistent with cost causation because only the net amount of energy purchased from the CAISO would contribute to CAISO's need to procure Flexible Ramping Products. This allocation basis is also consistent with the fact that a Load Following Metered Subsystem's load is actually measured and settled during every 10-min. interval; therefore does not contribute to the issue discussed by CAISO regarding the lack of load settlement granularity. Costs assigned to the proposed deviation buckets must also be allocated to a Load Following Metered Subsystem based on its net portfolio uninstructed deviations for each settlement interval because only the net uninstructed deviations of a Load Following Metered Subsystem represent the amount of energy it is either purchasing or selling to/from the CAISO market. Allocating costs assigned to the deviation buckets to individual units within a Load Following Metered Subsystem's portfolio would not

reflect the fact that the real time deviation of one resource in the Load Following Metered Subsystem's portfolio is likely in response to and directly offset by the deviation of another resource or load. Working from the same example above, in the case where the Load Following Metered Subsystem increases generation from one of its resources in real time to match the deviation of its load in real time, this type of resource deviation does not create a need for CAISO to procure Flexible Ramping Product, but rather reduces the CAISO's need to procure Flexible Ramping Product because CAISO will not be required to ramp other generation to respond to the Load Following Metered Subsystem's load deviation. Again, only the net portfolio uninstructed deviations of a Load Following Metered Subsystem represent the amount of load or generation that may cause the need for CAISO to procure Flexible Ramping Product.

Based on these comments, NCPA requests CAISO to include a separate cost allocation method as described herein for allocating Flexible Ramping Costs to Load Following Metered Subsystems. Such would be fully consistent with the method used to allocate other CAISO charge codes to Load Following Metered Subsystems that are already included within the CAISO Tariff, and which have been found to be just and reasonable.