California Independent System Operator
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NextEra Energy Resources Comments on the CAISO's Proposed Cost Allocation Guiding Principles dated February 14, 2012

NextEra Energy Resources, LLC ("NextEra") hereby comments on the California Independent System Operator Corporation's ("CAISO") Cost Allocation Guiding Principles – Straw Proposal dated February 14, 2012 ("Straw Proposal").

CAISO has stated that it intends to create a holistic approach to cost allocation and, for this reason, proposes a set of principles to guide the promised comprehensive reform of ancillary services changes. Unfortunately, the structure of the process outlined in the Straw Proposal offers no assurance of a holistic approach regardless of the generality of the proposed principles. Rather, the recently released Straw Proposal appears to be mostly focused on renewable energy generators, rather than fossil fuel, hydro, nuclear, and other generators. This narrow approach, without the concurrent consideration of all ancillary services products, leaves the desired holistic outcome speculative at best and highly discriminatory in reality. Without engaging in a truly comprehensive review, the CAISO approach has the fatal flaw of ignoring that all types of generators have to be integrated into the overall transmission system and every resource entails its own "integration costs," such as the contingency reserves that must be procured to compensate for the potential loss of large conventional generation units or even transmission elements.

With the very aggressive timeline proposed by the CAISO, it is impossible to expect that a reasonable cost allocation regime can be devised. Rather, in such a short time, the only feasible outcome would be to push costs onto renewable energy generators and thus take a piecemeal approach to the broader overhaul of the ancillary services market. We believe, that if the CAISO goes forward with a wholesale overhaul to ancillary services cost allocation, it must start by proposing a realistic timeline to match the complexity of the task.

The Guiding Principles are also so generalized that it is impossible to ascertain or predict the results they may produce. No single principle is problematic. However, the overall approach of applying the proposed new cost allocation principles to a single ancillary service, the flexi-ramp product, and to wait until a later process to consider its application to the rest of the CAISO resources and loads is both problematic and unlikely to provide a comprehensive solution. Nor has the CAISO stated what it expects the overall benefit from this initiative to be and whether there will be costs or new inefficiencies associated with it. In this regard, the CAISO asserts that a guiding principle is "manageability." Yet, in the time frame proposed, it will be difficult, if not impossible, to reasonably assess mechanisms to address variability and which market segment is best situated to efficiently marshal the resources to develop those mechanisms. If the CAISO moves forward, it should do so in a comprehensive, non-discriminatory manner. At minimum this would involve (1) evaluating the allocation of costs of all types of ancillary services, (2) allocating such costs to all types of generators and loads based on the costs created by such generators and loads, (3) revising the CAISO market design to allow generators and loads to better manage ancillary service costs, and (4) considering the new types of ancillary services that could be introduced to reduce overall costs.

There are also a multitude of commercial questions that must be answered or considered to achieve a just and reasonable outcome in this initiative. For example, should existing generators be grandfathered, so that they would not be allocated any ancillary service costs? If so, the CAISO should consider that allocating costs of ancillary services to existing generators would disturb the benefit of the bargain between sellers and buyers in a PPA, and potentially constitute an unlawful interference with existing contracts. However, if all existing generators are grandfathered, then only new generators would be forced to shoulder the new costs. Since nearly all new generation under development in California is renewable, these types of resources would be disproportionately impacted – even though they are being constructed to meet legally binding state policy objectives.

NextEra urges the CAISO to reconsider whether to proceed with this initiative. If the CAISO chooses to continue, then it should do so on a time line that allows it to identify and articulate the expected benefits to consumers and the expected operational benefits. NextEra urges the ISO to not undertake this issue in a piecemeal or ad hoc fashion. Such an approach is likely to have unintended consequences and suboptimal and discriminatory results. To fully overhaul the ancillary services market and revise the cost allocation scheme, the ISO should propose a reasonable timeline and methodology for accomplishing its objectives. We also highlight that the ERCOT market recently attempted a similar overhaul but abandoned the approach due to the considerable complexity and lack of cost justification for the minimal benefits to consumers from such an overhaul.

NextEra appreciates the opportunity to comment on the CAISO's proposal.

Sincerely,

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