

Comments on Flexible Ramping Products and Cost Allocation Revised Straw Proposal

Submitted By	Company or Entity	Date Submitted
Gifford Jung 604-891-6040	Powerex Corp.	Dec. 13, 2011

Powerex appreciates the opportunity to provide these comments on the Flexible Ramping Products and Cost Allocation Revised Straw Proposal (“Revised Straw Proposal”) published on November 29, 2011. Powerex supports the CAISO’s efforts in developing new capacity products, such as the Flexible Ramping Products (“FRP”), that will enable the CAISO to efficiently commit sufficient fast-ramping dispatchable generation capacity to maintain grid reliability.

Powerex Generally Supports CAISO’s Flexible Ramping Products Design

Based on the information provided to date, Powerex continues to generally support the primary design elements of the Flexible Ramping Products, including the co-optimization of FRP with energy and other ancillary services in both the IFM and Real-Time Pre-Dispatch process (“RTPD”); and the deployment of FRP for energy in the Real-Time Dispatch (“RTD”). Powerex believes further market enhancements should include extending this co-optimization process to include the CAISO’s residual unit commitment (“RUC”) process.

Recovery of FRP Charges Must Follow Cost Causation Principles

While Powerex generally supports the FRP design, it is deeply troubled by the CAISO’s intention to ignore cost causation principles in recovering the costs of FRP. Several stakeholders, including Powerex, have repeatedly raised concerns about the need to follow cost causation principles for both the flexible ramping constraint and flexible ramping products. Unfortunately, the CAISO continues to demonstrate that it is either unable or unwilling to apply appropriate charges for FRP to the generators (and imports) that deviate from CAISO’s LMP-based dispatch. These deviations are a root cause of the need for additional dispatchable capacity commitments, including FRP, and hence should bear an appropriate share of the cost, consistent with cost causation principles. Cost causation is a fundamental tenet of efficient market design, and CAISO’s failure to provide participants with price signals that are consistent with cost causation can and will lead to inefficient market outcomes and other unintended consequences.

Powerex understands that the CAISO’s reluctance to apply cost causation to FRP is driven by two primary reasons:

- a) CAISO’s apparent view that applying FRP costs to intermittent generation participants that have existing long-term commercial agreements with Load Serving Entities (“LSEs”) would somehow be “unfair”.

- b) CAISO's desire to address cost causation issues associated with all ancillary service products on a holistic basis in the future.

Powerex believes neither of these two reasons provides appropriate justification for violating cost causation principles for FRP.

First, Powerex believes it is entirely improper for an independent system operator to compromise fundamental market design principles in an attempt to pursue commercial equity objectives that are well outside of its mandate. Any commercial equity issues associated with long term commercial agreements must be resolved between the parties to those agreements, without impinging upon CAISO market design. It is inherent in all long-term contracts that market rules will evolve over time, and most contracts either have explicit provisions for handling such changes, or more generic mechanisms for resolving issues. In any event, if an LSE wishes to absorb FRP charges on behalf of its suppliers and pass this cost on to its ratepayers, it is free to seek the requisite regulatory approvals to do so. It is simply not the role of the CAISO to impose this outcome as a result of how it designs its markets. Indeed, designing the recovery of FRP charges *specifically* for the purpose of shifting FRP costs from generators to LSE ratepayers, and probably between LSEs, appears to undermine the CPUC's oversight of CPUC jurisdictional LSE costs.¹

Second, plans for a more holistic cost causation stakeholder process on ancillary services in the future do not justify the deliberate implementation of a FRP charge design that violates cost causation principles today. Implementing a new mechanism for recovery of FRP costs is required anyway; the incremental complexity of adhering to basic cost causation principles has not been shown – or even argued – to outweigh the benefits of improved market efficiency.² Ironically, the very failure to charge FRP costs to the behaviors that cause them to be incurred will reward the behavior and exacerbate the problem by increasing the need for FRP procurement. Recovery of FRP costs in a manner consistent with cost causation principles would likely reduce the need for FRP procurement in the first place.

CAISO Must Not Discriminate Against Similarly Situated Sources of FRP

Powerex is also concerned that the CAISO has declined to clarify that *all* similarly situated dispatchable resources will be able to offer FRP on a non-discriminatory basis. In particular, Powerex believes dynamic dispatchable system resources can and should be allowed to provide FRP from the commencement of FRP's implementation. The current market design already allows dynamic dispatchable system resources to provide energy, spinning reserves, non-spinning reserves, and regulation up and down reserves into both the IFM and RTM on a similar basis to internal dispatchable generation. Such resources are also well suited to providing the CAISO with FRP, without any known concerns or challenges, and should be afforded the non-

¹ Powerex understands that the CAISO passing through FRP costs to those LSEs will not make those costs subject to prudence review by the CPUC as the CAISO costs are a flow through with 100% recovery by the CPUC jurisdictional LSEs.

² In fact, it appears that the Revised Straw Proposal envisions initially charging FRP costs to generators, imports, exports, and load – consistent with cost causation principles – and then nullifying these charges through a reallocation exclusively to load at the end of the month. (Revised Straw Proposal at 30) Hence charges that reflect cost causation would require no incremental complexity at all; they would simply require that CAISO refrain from zeroing out the charges it already plans to calculate.

discriminatory opportunity to do so. To the extent the CAISO will not permit dynamic dispatchable system resources to provide FRP, it should fully explain its reasons for this differential treatment, and justify why this does not constitute undue discrimination.