SDG&E Comments on Flexible Ramping Products: Revised Straw Proposal

Submitted by	Company	Date Submitted
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SDG&E appreciates the CAISO's efforts to develop the Flexible Ramping Product (FRP) as a market-based approach to improve real-time operation and reliability. SDG&E submits these comments for consideration.

1. Cost allocation: SDG&E disagrees with the revised proposal to allocate costs to metered load. As the CAISO has expressly stated, the need for FRP is caused not only by load but also by intertie ramps, intermittent generation, deviations from dispatch instructions and generator outages. Therefore the proposed allocation violates the guiding principle of cost causation established in the Renewable Integration Market Vision and Roadmap, under which the FRP is a key mid-term initiative.[1]

   The current proposal does not provide objective arguments or empirical evidence to support the revised allocation methodology to metered demand. Therefore, SDG&E urges the CAISO to

[1] The cost allocation proposal may also violate FERC's cost causation principles. SDG&E notes that FERC recently ordered hearings on the CAISO's proposal to allocate flexible ramping constraint costs to metered load, precisely the allocation proposed here. There, FERC found that the CAISO's own pleadings indicated the need for flexible capacity arose from a variety of factors, not simply variations in load. Therefore, in allocating costs solely to load, the CAISO did "not adequately [demonstrate] to the Commission that its proposed allocation reflects the Commission's cost causation principles, and accordingly that allocation may not be just and reasonable." See, ¶ 29 at p. 12. http://www.caiso.com/Documents/2011-12-12_ER12-50_FlexiRamporder.pdf

adhere to the cost causation principle by further developing the cost allocation approach outlined in the initial proposal. The benefits are two-fold: 1) fairness to all market participants and 2) a market design that promotes efficient and reliable operation from the right market participants. As a basic example, if all FRP costs were only allocated to load, generators would have no incremental incentive to minimize deviations from RTD and therefore the CAISO would not realize this potential reliability benefit.

2. SDG&E proposes the final proposal include the explicit sale back of surplus ancillary services (AS) in RTPD. The current proposal provides for conversion of surplus non-contingent spin and online non-spin capacity into upward flexible ramping. However, this option has two shortcomings. First, it does not enable for conversion of surplus contingent-only operating reserves into upward flexible ramping capacity. Second, conversion does not allow the market to fully communicate economic preferences in RTPD for supplying operating reserves versus flexible ramping. For example, a generator with a day-ahead spinning reserve obligation may be willing to purchase that obligation back in RTPD while another resource offers flexible ramping capacity at a lower price. In summary, SDG&E believes the current proposal does not optimize the utilization of supply available for flexible capacity and operating reserves compared to a full buy / sale back RTPD market for ancillary services.

3. SDG&E seeks clarification of the rationale for designing the FRP as an "opt in" market, while generators carry a must-offer obligation for energy, AS and RUC up to their Resource Adequacy capacity. A must-offer requirement for FRP seems consistent with rules for these other products, in particular given that FRP supports grid reliability and generators are already subject to RTD dispatch requirements anyway. Further, a must-offer requirement would be consistent with expanding the CPUC RA program to include flexible ramping attributes. If load were required to meet such non-generic capacity requirements through the RA program, it would be in the public interest for that RA capacity to offer its flexible ramping capability into the market.