

**Subject: Flexible Ramping Product Supplemental  
Foundational Approach Paper**

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Wellhead appreciates this opportunity to comment on the CAISO’s Flexible Ramping Product Supplemental - Foundational Approach Paper.

After careful consideration of both options presented, Wellhead believes that Option 2 will result in inappropriate cost shifting and that the cost allocation aspects of the Flexible Ramping Product logically lead to the conclusion that the only appropriate methodology is Option 1 (explicit approach using unexpected ramping).

We reach this conclusion based upon the understanding that the Flexible Ramping Product is a reliability product. As such, it follows that the product costs, which are to be allocated to all market participants, should be limited to only what is necessary to ensure grid reliability. If the CAISO procures any amount greater than what is needed purely for reliability then the generators and other suppliers are simply subsidizing the cost of real time energy requirements. If flexible ramping is not a reliability product, then we fail to see the necessity for such a product.

Option 1 allows for an administrative limit which Wellhead assumes will be *only* that quantity necessary for reliability, and for which a transparent methodology must still be developed.

That said, if the CAISO proceeds with Option 2, Wellhead would encourage the CAISO to explore adding a cap to the amount of Flexible Ramping that could be acquired (under Option 2). Without a cap, the demand curve may procure more capacity than what is required for reliability needs simply because of the energy price reducing impacts. As such, this additional capacity will act as a secondary energy market, and will depress the primary real time energy prices. Adding a cap will allow the simplicity benefits of the implicit approach to be enjoyed without undermining the functioning energy markets or requiring generators and other suppliers to pay for a reliability product that results in energy cost reductions that are solely for the benefit of load. This is inappropriate cost shifting that must not be fostered or allowed by the CAISO.

In conclusion, Wellhead believes that the CAISO must ensure that generators and other suppliers are only allocated the costs of Flexible Ramping that are necessary to ensure grid reliability, and we believe that this can only be accomplished by applying a transparent, administratively set limit to the quantity procured as would be accomplished with Option 1.