

City and County of San Francisco's Comments on the CAISO's Renewables Integration: Market and Product Review, Phase 2 April 5, 2011 Discussion and Scoping Paper

Submitted by	Company	Date Submitted
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The City and County of San Francisco (CCSF) takes this opportunity to comment on the April 5, 2011 Discussion and Scoping Paper in the Renewables Integration: Market and Product Review, Phase 2 (Scoping Paper.)

The Scoping Paper is appropriately broad and ambitious in examining the expected impact that adding significant quantities of new variable energy resources (VERs) will have on the CAISO-controlled grid and the CAISO's energy and ancillary services markets. As pointed out at the April 12, 2011 stakeholder meeting, improvements to the current market structure are necessary in the context of meeting the new 33 percent renewables portfolio standard (RPS). The increased need for dispatchable resources, reliance on flexible ramping of existing resources, additional Regulation, ancillary services and new firming, storage and support capabilities to support meeting the RPS standard implies profound market and cost impacts as well as operational challenges. CCSF looks forward to actively participating in the market design and policy development activities planned for this new initiative.

The Scoping Paper identifies a wide range of new operational and resource strategies needed to address the different anticipated impacts that adding large quantities of VERs in a short period will bring. CCSF supports exploring the wide range of approaches included in Scoping Paper, except for the re-introduction of the issue of a centralized capacity markets (CCM) outlined in Section 2.6.1.

The California Public Utilities Commission (CPUC), the agency designated by the state of California to determine resource adequacy issues for the regulated investor-owned utilities has previously decided against the use of capacity markets as a means to acquire necessary energy resources. The CAISO should not use this forum as a means to revisit an issue already decided. Indeed, the Scoping Paper itself recognizes that any discussion of a centralized capacity market is premature. As the Scoping Paper notes:

..[T]he need for non-generic capacity types is still a central issue, so if there is merit to a CCM, a key question to address would be how to define the capacity product to be transacted in a CCM¹

In other words, the CAISO first must identify the types of energy products it needs to address renewable integration, a step it is undertaking in this initiative, and only then can it determine how these attributes might be accounted for in a capacity market framework. As the Scoping Plan notes, “[n]one of the [other] ISOs [with forward capacity markets] include non-generic capacity attributes in their forward capacity markets.”² Inclusion of the contentious issue of capacity markets will only delay and polarize the current initiative.

In reviewing the range of strategies presented to address renewable integration, there is still heavy reliance upon addressing the pricing and procurement of increased quantities of Regulation. As the Scoping Paper describes:

“Regulation is used to control the energy output of generating units within a prescribed range in response to changes in system frequency, tie-line loading, or the relation of these to each other so as to maintain the target system frequency and/or the established interchange with other balancing authority areas within predetermined limits.”³

. While having adequate Regulation is fundamental to system reliability, CCSF notes it is also important that this Phase 2 explore the degree to which VERs can overcome the system variability they potentially impose, and thereby mitigate need for increased Regulation. This initiative should examine not only the new system needs, but also the cost causation driving those needs.

CCSF supports placing highest priority on analysis of cost effectiveness, cost causation and cost allocation side by side with the development of integration strategies, whether those strategies are market design changes, new product design or new procurement strategies for current products, such as RUC. The Scoping Paper appropriately recognizes the importance of including these elements.⁴ Therefore, we urge the CAISO to tailor its analysis and cost allocation strategies to cost effectiveness and cost causation principles. Any increases in energy, ancillary services and uplift charges must be need-justified, cost-effective and appropriately allocated. It would not be just and reasonable to simply place the entire cost burden of integrating renewables on all LSEs proportionately. This would not reflect the relative status of each LSE in meeting its state-mandated RPS obligations and would be particularly unjust and unreasonable for those that have already met their RPS obligations. As Edison and others pointed out at the April 12 meeting, including a “decomposition” analysis that identifies the drivers of greater system variability and uncertainty and therefore, the need for new and greater reliability strategies will be key to getting cost allocation right.

¹ Scoping Paper, Page 18

² Scoping Paper, Page 22

³ Scoping Paper, Page 7, footnote 5

⁴ Scoping Paper, page 15

CCSF also favors the Scoping Plan and stakeholder suggestions to investigate the potential cost savings resulting from market design fixes to the current market structure. For example, CAISO staff and others suggested at the April 12 meeting that Phase 2 should evaluate eliminating the Hour-Ahead Scheduling Process (HASP) and the five minute settlement structure in favor of a fifteen minute market structure to enhance the resource and market flexibility outside the day-ahead market, while simplifying the current market structure. These suggestions should be included in the high priority items for the mid and long term strategies examined in this Phase 2.