Comments of the City and County of San Francisco on the
CAISO August 29, 2011 Revised Straw Proposal
Renewables Integration Market and Product Review, Phase 2

September 22, 2011

Submitted by:
Irene Moosen: 415-587-7343
Doug Boccignone: 888-634-7509

The City and County of San Francisco (CCSF) presents these comments on the August 29, 2011, Revised Straw Proposal (Straw Proposal) in this Phase 2 of the Renewables Integration Market and Product Review stakeholder initiative. These comments are limited to the issue of cost allocation mechanism development. CCSF urges the CAISO to develop cost allocation mechanisms for each procurement mechanism and market design element early in this process so that cost causation and allocation information can inform further development, adoption, and implementation decisions. This will be crucial for assuring that an appropriate allocation of burdens accompanies the purported benefits of each new initiative designed in this stakeholder process. In other words, the outcome of this effort must be just and reasonable and not unduly discriminatory. This outcome can be achieved by explicitly designing an appropriate cost allocation mechanism tailored to the particular program introducing new products, settlement or scheduling design changes into the CAISO's markets.

The CAISO has identified the need for increased upward and downward ramping capability to balance the large quantities of intermittent resources slated to come on line to meet the RPS. This Phase 2 focuses on the various options for procuring these additional ramping resources designed for mid-term implementation, 2013-2015. In this context, CCSF comments as follows.

1. New Seventh Guiding Principle: Cost Causation

CCSF was one of the many stakeholders urging the inclusion of a "Guiding Principle" that cost allocation should be based on cost causation. CCSF fully supports the inclusion of this seventh guiding principle as simply stated: "The ISO market allocates costs based on cost causation." The CAISO has appropriately recognized that load and resource variability and the associated settlement risks are best managed by those market participants directly responsible for serving load or developing and operating resources that experience variability.

2. Implementing Cost Causation Principles in each Cost Allocation Mechanism

Having stated this principle, the more difficult task that lies ahead is to craft and implement cost allocation mechanisms that recognize cost causation as the driving design element. Recognizing that all resources and loads can experience real-time deviations for various reasons, it will nevertheless be necessary to analyze the source of greater intermittency leading to increased procurement of ramping capable resources by the CAISO in order to adhere to cost causation principles. It will not be sufficient to simply spread the costs pro rata to all metered demand when the ISO procures significant quantities of firming, shaping, regulating and balancing resources needed to integrate large, new intermittent resources. To the extent the cause of increased procurement costs can reasonably be determined, those costs should be allocated to the entity causing the costs.

CCSF supports the comments made by Jeffrey Nelson of the Southern California Edison Company during the last stakeholder meeting on this topic. To paraphrase, Mr. Nelson emphasized the need for the CAISO to identify the circumstances that give rise to specific procurement needs, such as, fluctuations in intermittent resource generating performance, and over-generation conditions in off-peak hours due to high renewable generation production. Different procurement circumstances will "cause" cost incursion and will lead to different conclusions regarding how to achieve just and reasonable assignment of cost responsibility. Appropriate cost allocation can then follow from the “cause” of the costs in question.

CCSF urges the CAISO to develop an appropriate cost allocation method informed by a rigorous cost causation analysis for each proposal under consideration in this Phase 2. It will be crucial that this task does not wait until the end of Phase 2. Commenters who seek delay of cost allocation considerations until after completion of the final design ignore the role that clear cost allocation mechanisms play in assessing the costs and benefits of each individual proposed product or market design mechanism. In other words, new products or services are not “good ideas no matter the cost” or “regardless of who pays the costs.” These questions are fundamental considerations in evaluating the competing alternatives within this stakeholder initiative and should be an integral part of their development in this stakeholder process.

In this Phase 2, the CAISO and the stakeholders will address the challenges of renewable integration’s new balancing demands on the system between forward markets and real-time. In addition, the CAISO and stakeholders must also consider existing market design issues that cause large deviations between HASP and real-time and lead to costly uplift charges. The answers to the procurement and redesign questions will also require mechanisms to track costs for new programs and products so that those costs can ultimately be allocated appropriately. It is clear that we need as much information as possible about what market and/or system conditions are giving rise to the specific additional CAISO procurement actions. For example, what system or market conditions give rise to procurement of additional regulation or trigger the current flexible ramping constraint (the precursor to the proposed flexi-ramp product)? We look forward to hearing further information from the CAISO, for example, on how the current flexi-ramp constraint is calculated (as the representative from the CAISO was unable to address this question during the stakeholder discussion.) The purpose of further analysis will be to inform the choice of whether costs should be assigned to load and supply deviations from the integrated forward market schedules (including renewable resource deviations) or dispatch instructions or spread to metered demand or some combination of the two. (Straw Proposal, page 33.) CCSF urges the CAISO to expand its analysis to consider the cost and reliability impacts of not including reasonable forecasts of Participating Intermittent Resources in the Day Ahead market, and identification of appropriate methods for allocating the associated costs to the PIRP participants causing the costs.