

SMUD Comments to the ISO Participating Intermittent Resource Program Initiative

SMUD appreciates the opportunity to provide these brief comments to the ISO regarding its Participating Intermittent Resource Program (PIRP) Initiative. These comments are preliminary in nature and provided to briefly outline SMUD's position as to its participation in PIRP.

SMUD has participated in the ISO PIRP since August 26, 2004. During 2005, SMUD had approximately 15 MW of wind generation in the program produced at its Solano County site. It currently has 39 MW in the PIRP. The Solano wind generation is dedicated to serve SMUD's customers and constitutes a significant portion of SMUD's renewable energy portfolio.

SMUD has constructed these resources specifically to advance its commitment to the renewable energy priority of its Board and to serve SMUD customers. This priority is also that of the State of California, which set a 20 percent renewable energy target when it enacted Senate Bill 1078 (Chapter 516, September 12, 2002).

As the ISO is aware, renewable generation, and in this instance, wind, is location-driven. Outside of the ISO Control Area, there are no other practical areas within reach of the SMUD Control Area where SMUD can construct wind generation in the foreseeable future. (There are potential areas in the far Northeast corner of California, but there is no transmission in these areas). Certainly, there are no practical wind development areas *in* the SMUD Control Area. Thus, in order to fulfill its obligations for renewable power, SMUD has continued to develop its facilities within the ISO Control Area. The PIRP program is one important element in the continued development of Solano. SMUD both appreciates the program and believes its participation has enhanced and benefited both its consumers and those within the ISO.

There are two primary questions being posed 1) should exports participate in the PIRP? and 2) assuming an affirmative answer to question one, should the costs of the program be more properly aligned with cost causation to ensure no participant is over-burdening rate payers within the ISO? SMUD believes the answer to both of these questions is affirmative.

Exports Should be Allowed to Participate in the ISO PIRP

As to participation of exports, SMUD first notes that it is a State policy to expand the development of renewable resources. However, because of the nature of the ISO market particularly, intermittent resources such as wind can be inordinately burdened by the ISO's settlement mechanisms due to its procurement of Imbalance Energy on a 10-minute basis. Thus, among other things, PIRP was developed as a buffer to its imbalance procurement, which can be very costly to an intermittent resource. Because intermittent resources have little or no control over imbalance causation the imbalance settlement mechanism was thought to have an undesirable chilling effect on the development and participation of intermittent resources.

PIRP has the additional benefit of pooling a large number of intermittent resources, which ostensibly lessens the impact of intermittent resource portfolios as to the ISO's PIR imbalance procurement due to the often negative correlation between intermittent regions. For example, there are times when the wind production in Solano County is counter netting imbalance costs associated with wind production in the Tehachapi region. Moreover, there are other economies of scale, including data sharing. As such, the ISO should be trying to foster PIRP participation. This participation should not stop at the ISO border, since the State of California is comprised of more than only ISO participants, and entities like SMUD are under no less of an obligation to increase and improve their reliance on renewable generation. Indeed, not all renewable generation is within the ISO footprint, or even within California, so a parochial rule which excludes participants is severely short-sighted.

Additionally, it should be noted that SMUD customers *also* pay for renewable energy programs that provide them no direct benefit. For example, SMUD customers pay a significant surcharge for natural gas purchases from PG&E that fund solar programs for PG&E's ratepayers.

Finally, SMUD was further encouraged to participate in PIRP when it saw the ISO's willingness to help remove possible impediments to our participation. SMUD was happy to work with the ISO to resolve these impediments and has truly appreciated and benefited from the program. We believe the ISO has benefited from SMUD's participation as well. Thus, we view the proffered notion that SMUD should be excluded from PIRP to be a stark turn-about and quite surprising. Moreover, we find the suggestion by one of the call participants that PIRP was never intended to include exports as disingenuous. The ISO created the program and knew SMUD wind generation would be exported to SMUD's customers. There were no objections to this until far more recently. Clearly any stakeholder and the ISO have the right to raise and revisit ISO policies. However, to suggest that the involvement of exports in the PIRP was never anticipated is false.

For these reasons, the ISO should reject the notion that exports should be excluded from PIRP.

SMUD Supports the Reexamination of PIRP Costs and the Possible Realignment of PIPR-Related Charges to Better Reflect Cost Causation

On the issue of PIRP cost allocation, particularly with reference to Charge Type 721 of which a single SC complains, SMUD agrees that these costs should be better aligned with cost causation. SMUD therefore looks forward to a stakeholder process on quantifying the *incremental* costs of PIRP and balancing the system for intermittent resources, as well as comparing the alternatives for better allocating these costs to PIRP participants. We do believe it is incumbent on the ISO to first attempt to identify and differentiate these costs as much as possible. For example, what are the quantifiable benefits that off-set these costs, such as pooling and the negative correlation of PIRP resources? It may well

be that the costs associated with exports are significantly reduced by their benefit to the PIR pool and that their withdrawal from the program may result in little change in net PIRP subsidies. In any event, there needs to be more precise quantification of costs and offsetting benefits to get a real picture of the net impacts before a cost allocation method is prescribed. This must precede any proposed solution. It is important to note that with intermittent resources on the increase, our collective work in this process will have far more importance in the future than it does immediately. The removal or inclusion of SMUD's current 39 MW of intermittent generation is tiny in the context of the ISO's 48,000 MW peak. Nonetheless, SMUD hopes it will be able to substantially expand its wind generation in the future, something that may be dependent, at least in part, on the future of the ISO's PIRP.

Dynamic Scheduling of PIRP Exports

The ISO Tariff only provides for the dynamic import of energy from a Host Control Area into the ISO Control Area. It does not provide for exports. A pseudo tie arrangement pilot program is underway for a "single" export resource from the ISO Control Area. However, a pseudo tie export (and import) requires a firm transmission path from the resource to the receiving control area boundary. In the case of Solano, there is no long-term firm transmission right to cover the potential capacity of Solano, or even the current capacity beyond a couple more years (SMUD's Reserve Transmission Service expires in 2009). It is presumed that a dynamic scheduling arrangement, even if allowed under the ISO Tariff, would also require a firm transmission path as well.

Process Issues

- SMUD believes that it is premature to select a specific cost allocation before all of the costs and off-setting benefits are as transparent as possible. In other words, it remains unclear what the universe of costs and benefits are. We know from historical data what the various charges, such as 721, are. However, we do not know how forecast improvements, greater participation in the pool, etc., will affect the numbers. Put another way, we need a better understanding as to the severity of the problem before fashioning a solution.
- SMUD has no qualms with the conference call format, however, listen-only lines make it difficult to respond to issues being raised in a timely manner. At some juncture, there should be a face-to-face discussion.
- Finally, the ISO has noted its intent to "poll" participants as to their views on exports. From the call, there were very few concerns raised as to exports except from one entity. Thus, assuming we can deal directly with the cost issues, there were no other entities objecting to export participation. SMUD expects that the results of any such polling will be made fully transparent so we can quantify these objections.