SCE's Comments Concerning PIRP Exports
7/17/2006

SCE appreciates the CAISO's effort to address cost and incentive issues related to PIRP Exports and thanks the CAISO for the opportunity to provide comments. Although SCE continues to support the PIRP program we believe that certain refinements to the program are necessary to address the cost impact to CAISO participants related to PIRP exports.

Under PIRP, participants avoid traditional charges and instead pay imbalance energy charges based on their net monthly deviations and the average imbalance energy prices. According to the CAISO's recent white paper on this topic, PIRP subsidies as a result of this imbalance netting have totaled over $2.3 million in 2005[1]. This amount is collected via Charge Type 741 from SC's based on their Net Negative Deviations. That is, CAISO participants, primarily load, pays this shortfall. SCE notes this $2.3 million does not include the total cost to CAISO participants. Per the white paper, PIRP participants also avoid payments for Transmission Losses, avoid Minimum Load Cost Compensation, and at this time do not fully fund the administrative costs associated with the PIRP program[2]. SCE notes there are additional, difficult to calculate costs related to the PIPR program including increased ancillary service demands, additional unit commitment and liquidity impacts on the supplemental energy market. All of these costs flow back to CAISO participants, again with the vast majority charged to load within the CAISO's control area.

<u>Improper PIRP Rules will Inappropriately Increase Costs to CAISO Customers</u>

Although a subsidy in 2005 of $2.3 million is in itself noteworthy, this results from only approximately 470MW of PIRP capacity. As the white paper observes "The PIRP participants are only a fraction of overall wind generation resources in the State" and that "The quantity of installed wind generation is expected to increase significantly as additional wind generation capacity is installed to support the State Renewable Portfolio Standards (RPS)." In fact, previous CAISO forecasts indicate the PIRP program could grow to over 3,000 MW by 2011[3]. SCE remains concerned that PIRP costs will continue to increase, and in fact may be exacerbated if the CASIO does not properly address exports from PIRP resources.

To illustrate the point, SCE wonders how the CAISO, or any control area operator for that manner would answer the following question: Would you prefer to operate 1) a grid filled with resources that can be precisely scheduled, or 2) a grid filled with intermittent

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[1] "CAISO White Paper Export of PIRP Energy Project", 6/28/06, page 1.
[2] The White Paper notes that the CAISO faces internal administrative costs of at least one FTE, additional costs to manage Real Time Operations to manage PIRP deviations, and a approximately $119,000 in shortfalls related to forecasting fees.
[3] "Participating Intermittent Resource Program (PIRP) for Wind Generation", CAISO presentation slide 9, March 23, 2005

resources? We suggest that, from an operational perspective, control area operators would unanimously select the first option. Herein lies the concern over perverse incentives: The current treatment of PIRP exports *encourages* external control areas, including out-of-state control areas, to locate their wind generation within the CAISO and then export firm power. External parties can then generate intermittent power within the CAISO control area and have the CAISO manage all of the associated resulting imbalance energy, ancillary services, and other operational and planning activities necessary to accommodate the intermittent power. Finally, these parties can simply export firm power out of the CAISO grid. In doing so these external parties potentially shift significant costs away from their own customers and/or shareholders, and instead force load within the CAISO grid to pick up the bill.

On a 7/12/06 CAISO conference call, SMUD indicated that SCE's concerns were directed at SMUD's proposed 200MW windfarm within the CAISO's control area[4]. SCE wishes to clarify, as illustrated above, that its concerns extend far beyond SMUD's project. To the contrary, SCE is encouraged with SMUD's clear pronouncement that they do not desire to shift costs on to CAISO load, but rather they desire to work with the CAISO and other stakeholders to address this PIRP export issue in an equitable manner.

Irrespective of Original Design Nuances the Export Problem must be Corrected

On the 7/12/06 call, the CAISO solicited feedback on why some parties believe that the PIRP program was originally designed to serve load within the CAISO control area. SCE notes that any design that produces perverse incentives, either unintentionally or intentionally, should be corrected. SCE believes the current treatment of PIRP exports, which the CAISO characterizes as creating an "unintended consequence"[5], falls within this category and requires correction.

With that said, SCE's understanding during the development of PIRP was that PIRP energy would serve load within the CAISO. Not only is this a rational implication of asking CAISO participants, and for all practical terms CAISO load, to pay uplifts related to PIRP, but it is also consistent with the CAISO's January 31, 2002 Amendment 42 filing on this issue to FERC. In the transmittal letter for Amendment 42 which established the PIRP program, the CASIO stated:

> At its July 2001 meeting, the ISO Board of Governors directed ISO Management to work with representatives of the California Wind Energy Association, the

[4] SMUD currently operates its own control area and is not part of the CAISO.

[5] "The CAISO has told this SC that the subsidies to exporters are an unintended consequence in the design of the PIRP program and the CAISO intends to work with stakeholders to develop modifications to the program that will address this subsidy issue and minimize the overall cost of subsidies.", "CAISO White Paper Export of PIRP Energy Project", 6/28/06, page 1.

> American Wind Energy Association, the Independent Energy Producers Association, the California Department of Water Resources, the Governor's office, the investor-owned utilities and other interested parties to develop a consensus proposal for facilitating the participation of intermittent resources *in ISO markets*. (Italics added)

SCE participated in many of the discussions leading up to this filing and was left with the distinct impression PIRP was in fact, consistent with the FERC filing, design for participation "in ISO markets". In contrast, it was not designed to facilitate intermittent exports for participation *outside* of ISO markets. Participation *in ISO markets* excludes all forms of exports, not only exports to neighboring states but also exports to other California Control Areas outside of the CAISO's boundaries.

To ask CAISO load to pay subsidies for power that is then exported outside of the CAISO, particularly in light of a design that was promoted for intermittent participation "in ISO markets", is clearly inequitable and SCE maintains its objections. Moreover, proposals to simply change cost allocation or to apply surcharges to PIRP exports remain inconsistent with the original design which made significant accommodations in order to facilitate intermittent participation "in ISO markets".

As SCE has previously noted, based on various comments made throughout the PRIP process, as well as an August 30, 2005 CAISO presentation related to PIRP and MRTU, it appeared that the CAISO recognized the export problem and planned to address this issue by restricting exports from PIRP participants in MRTU. For example, the August 30 CAISO presentation listed as an item required to facilitate wind that "Resources in PIRP serv[e] CAISO Control Area Load".

<u>SCE Recognizes Wind has Locational Restrictions</u>

SCE recognizes that wind generation requires special locational conditions, and that the CAISO has many locations favorable to wind within its geographic footprint. In general, SCE does not oppose external parties building wind within the CAISO and then exporting the wind energy. However, such exports should not receive subsidies from CAISO participants. We have already noted that beside explicit charges associated with PIRP (i.e. Charge Type 741) there are a host of cost far more difficult to quantify associated with the exports of intermittent resources. SCE continues to believe the most appropriate way of dealing with exports from intermittent resources is to require dynamic schedules. Dynamic schedules ensure that load within the CAISO does not subsidize the external party, and rather, that the true benefits and costs of the wind generation are properly born by the external control area receiving the wind energy.

<u>Recommendations</u>

The CAISO white paper presents five options to address the PIRP export problem. In addition, the presentation used during the 7/12/06 conference call details an aggressive timeline in which the CAISO will remedy the problem through a tariff filing, if necessary, on September 30th, 2006. Although SCE would like to see resolution along this schedule, given the complexity and diverse views on this issue, we think the timeline is unrealistic. In any event, at this point there should be no confusion and all parties should be aware that the CAISO is considering explicit treatment and rules associated with PIRP exports.

Consistent with our understanding of the PIRP program, we continue to believe that PIRP energy must serve CAISO load. However, SCE does not see any clean mechanism in which the CAISO can actually track exports of PIRP energy through their market and enforce a "no export" rule. This becomes particularly difficult in light of the proposed MRTU design in which all energy is sold to the CAISO's pool and all energy is then purchased out of the pool. As a result, proposed MRTU rules do not currently allow purchases from the pool to be traced back to a specific generator.

To allow for administration of a "no export" rule, SCE believes that only intermittent resources that can demonstrate a contractual obligation to sell power to loads within the CAISO should be allowed to participate in PIRP. In MRTU it might be possible to expand this such that, absent an explicit contract with CAISO load, special PIRP Self-Scheduling rules could be developed for the HASP process to ensure the power served CAISO load.

Conclusion

SCE continues to support and endorse the PIRP program, but the export issue must be addressed. The current PIRP system is inequitable and creates perverse incentives for parties to shift costs and operational burdens to the CAISO and to load within the CAISO. SCE believes that the best way to ensure an equitable result is to prohibit exports from PIRP resources and administer this by requiring PIRP participants to demonstrate they have a contractual commitment to serve a commensurate amount of load within the CAISO. SCE will continue to work with the CAISO and other interested stakeholders to resolve this current flawed aspect of PIRP.