California Independent System Operator

Comments of the California Wind Energy Association on the April 9, 2012, CAISO Draft Final Proposal on Flexible Ramping Products

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I. INTRODUCTION

The California Wind Energy Association ("CalWEA") appreciates the opportunity to comment on the California Independent System Operator Corporation's ("CAISO") Cost Allocation Guiding Principles – Draft Final Proposal dated April 9, 2012. The Draft Final Proposal provides additional details concerning how the CAISO envisions implementing its proposed flexible ramping product. The CAISO, however, did not respond to CalWEA's concerns about how CAISO proposes to allocate the costs of flexible ramping to market participants, and offered no new cost-causation analysis to support its plan to allocate (according to the formulas that it proposes) flexible ramping costs to generators, in addition to load. The CAISO's latest Draft Final Proposal devoted just three paragraphs to the subject, one of which recites its own cost allocation guidelines, which have not been vetted before the Federal Energy Regulatory Commission ("FERC").

Rather than support its cost allocation theory, the CAISO seeks to divert attention from the issue with the entirely new contention that flexible ramping is not an ancillary service. This claim does not relieve the CAISO of the burden to support and defend its cost allocation plan. It

is also flat wrong. Dedicating generation flexibility to support reliable transmission service fits squarely within FERC's definition of ancillary services generally, and regulation and frequency response service specifically. It is irrelevant whether the CAISO is now proposing to reserve generating capacity to provide "upward flexible ramping" or "downward flexible ramping" or regulation service that are essentially provide the same service.

Finally, the CAISO's theoretical discussion about how it proposes to avoid "false opportunity payment" fails to dispel the concern that it will recover its costs twice for the same service if it charges both load and generators for flexible ramping service. FERC policy requires the costs of ancillary services to be charged to the transmission customers serving load that benefit from reliable grid operations, and permits transmission providers to charge generators for ancillary services only insofar as their transactions cause the transmission provider to incur ancillary service costs that are not recovered from load. For example, transmission providers are permitted to recover the costs of "generator imbalance service" only to the extent that the costs incurred by the transmission providers are not already recovered from transmission customers under Schedules 3 or 4. The CAISO simply does not discuss how it proposes to ensure that generators will not be charged for flexible ramping services that are already being paid for by load, or how it will distinguish between "flexible ramping" and traditional regulation service to ensure that generators are not forced to overpay for flexible ramping to subsidize traditional regulation services that are paid for by load under the CAISO's current tariff.

The CAISO would do well to consider these concerns carefully before it files its plan with FERC, where it will be required to explain its position in greater detail than it has thus far done in the stakeholder process.

II. FLEXIBLE RAMPING IS AN ANCILLARY SERVICE

The CAISO's contention that flexible ramping is not an ancillary service is wrong, and is contradicted by the CAISO's own description of the flexible ramping product.

The Draft Final Proposal states that it "has proposed to implement the flexible ramping constraint to address certain reliability and operational issues observed in the ISO's operation of the grid." (Draft Final Proposal at p. 4.) "Flexible ramping product is similar to load following," the CAISO concedes, "except that the load following variability component is based on the difference between hourly average net load and the 5 minute average net load levels accounting for uncertainties while the flexible ramping product variability component is based on the difference between 15 minute average net load and 5 minute average net load." (Draft Final Proposal at p. 5.)

Whether a particular service is an "ancillary service" generally, or "load following" more specifically (*i.e.*, regulation and frequency response service, as FERC has defined it) does not depend on what the CAISO chooses to call its products, or the time intervals over which it chooses to procure them.

FERC's *pro forma* tariff defines "ancillary services" as "Those services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the Transmission Provider's Transmission System in accordance with Good Utility Practice." This is precisely the rationale the CAISO offers when it states that it needs a new flexible ramping product "to address certain reliability and operational issues observed in the ISO's operation of the grid."

The flexible ramping product is not just "similar to load following" as the CAISO says, it <u>is</u> "load following." FERC recognized in Order 888 that "load following" is made up of two

complementary services, regulation and frequency response services "that are made available using the same equipment."[1] CAISO proposes to procure its flexible ramping product from the same types of resources that are used to provide regulation and frequency response services with minor differences in the way that it procures and dispatches those resources. The time period over which the CAISO procures these resources is irrelevant to the question whether flexible ramping is an ancillary service or part and parcel of load following service. In fact, FERC has emphasized that "load following must be available at all times both to cover the moment-to-moment load fluctuations and to match resources (including those which may be block scheduled) to load throughout the hour . . . ."[2]

As FERC defines it, load following is a product that must be available "at all times" within the hour, which means that a service does not lose its character as load following simply because the transmission provider changes the time interval over which it dispatches the service. When FERC directed RTOs like CAISO to change the way they compensate entities that provide frequency response services to recognize the benefits that fast-ramping resources provide, FERC recognized RTOs have different dispatch practices for these resources. FERC stated that while most RTOs dispatch resources to provide the service every 5 minutes, the CAISO uses a 10-minute dispatch interval.[3] While FERC may not have precisely stated the time interval used by the CAISO to dispatch resources, the main point is that FERC did not find these differing dispatch practices to be material in terms of defining the ancillary service product. It would be a bizarre, and unlikely, result for FERC to shift gears now and agree with the CAISO that "flexible ramping" is not load following simply because the CAISO has decided to establish a new

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1 Order 888, FERC Stats. & Regs. ¶ 31,036, at p. 31,707 (1996).

2 *Allegheny Power Serv. Corp.*, 85 FERC ¶ 61,275 (1998) (emphasis added).

3 *Frequency Regulation Compensation in the Organized Wholesale Power Markets*, 134 FERC ¶ 61,124, at P 12 n.18 (2011) (Notice of Proposed Rulemaking).

dispatch interval that is more in tune with the practices of its brethren RTOs. In fact the CAISO is already implementing a new method for paying generators who provide better regulation/load following service called "pay for performance."

Without discussing FERC policy on ancillary services or considering how Order 755 relates to its proposal, the CAISO presses ahead with its claim that flexible ramping is not an ancillary service for three reasons discussed on page 5 of the Draft Final Proposal, all of which demonstrate that flexible ramping really is an ancillary service.

First, CAISO claims that procuring 5-minute ramping products is something new and different from the 10-minute ramping products that CAISO uses to procure ancillary services. That distinction is irrelevant for the reasons given above. Fast ramping services are precisely what FERC ordered the CAISO to procure in support of frequency regulation service. CAISO's argument confirms that flexible ramping is an ancillary service.

Second, CAISO attempts to distinguish the "continuous" dispatch of the flexible ramping product from regulation services that "are dispatched in real-time by AGC." This confusing comment does not support the CAISO's position. Generating units with automatic generation control equipment are "continuously" dispatched—that is the whole point of installing AGC on generators. The instantaneous reaction of generators on AGC actually serves to manage instantaneous frequency deviations by match supply with demand to keep the system in balance on a moment-to-moment basis, whereas Flexible Ramping service relies on the dispatch of resources to maintain overall system balance on a 5-minute basis to achieve the same goal. Putting aside the issue of nomenclature, the main point is that it makes no difference whether the CAISO is relying on instantaneously or gradually dispatched resources to achieve the goal of load following (regulation and frequency response). The real issue is that the CAISO is

proposing to call on the resources to maintain within-the-hour balances to preserve reliability, which the CAISO concedes. So, its second distinction also confirms that flexible ramping is an ancillary service.

Finally, CAISO claims that by setting aside flexible ramping capacity ahead of when it is needed to create headroom somehow makes the service different. But all transmission providers are required to obtain the generating capacity that they need to preserve system reliability in compliance with NERC standards, and it makes no difference how they obtain it. The bottom line is that the CAISO is required to meet Control Performance Standards 1 and 2 as approved by FERC under Reliability Standard BAL-001-0.1a. It must meet the more critical CPS2 standard at a minimum of 90 percent of the 10-minute intervals each month. Whether it does this by setting aside capacity ahead of time, or tries to do it on the fly, is of no consequence so long as it meets the standard. The CAISO seems to have concluded that as a matter of sound and reliable operating practice it should develop a means to make sure that adequate capacity is available when necessary. Having made that decision, however, does not convert the reserved capacity into something other than an ancillary service when the whole reason for setting it aside is to preserve the reliability of the transmission system.

Other regional transmission organizations exploring the procurement of flexible ramping capability are more candid than the CAISO in recognizing that the capability is an ancillary service, and also plan to assign cost responsibility for the product to their load. The Midwest Independent Transmission System Operator, Inc. ("MISO") recently presented its flexible ramping plan to stakeholders in which it plans to procure additional ramping capacity during the unit commitment process instead of treating it as a new product as CAISO has chosen to do. Nonetheless, MISO recognizes that ramping capacity should be treated like an ancillary service,

even when procured in this fashion. MISO thus stated that it will increase charges to load to pay for the product "similar to other ancillary services."[4] The CAISO's approach risks suffering by comparison to the MISO plan.

III. CAISO HAS STILL NOT PROVIDED A COST ALLOCATION ANALYSIS OR SHOWN THAT ITS PLAN WILL NOT PRODUCE A DOUBLE RECOVERY OR INAPPROPRIATE CROSS-SUBSIDY

CAISO ignored CalWEA's cost allocation and double-recovery concerns and devoted just three non-substantive paragraphs of the Draft Final Proposal to these fundamental ratemaking issues. CAISO will bear the burden to support and justify its plan before FERC, which means that it will have to confront the rate issues sooner or later.

CAISO's claim that flexible ramping is not an ancillary service does not justify a departure from FERC's normal practice of allocating cost responsibility for ancillary services to load, as the CAISO's tariff currently does with respect to regulation services. This is especially true for a service such as flexible ramping that the CAISO claims to need to preserve the reliability of the transmission grid. Grid reliability is a benefit that to the transmission customers who use the grid, which are mostly load-serving entities or energy exporters, but not generators who do not schedule transmission service. The Draft Final Proposal presents no analysis to show otherwise.

Moreover, as CalWEA pointed out in its comments on the last draft "final" proposal, CAISO bears the burden to show that it will not recover the costs of flexible ramping service twice, once from transmission customers serving load or exports, and a second time from

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[4] Midwest Independent Transmission System Operator, Inc., "Stakeholder 5th Technical Workshop: Ramp Capability in MISO Markets," Apr. 14, 2012 at slide 9. Available at: https://www.midwestiso.org/Library/Repository/Meeting%20Material/Stakeholder/Workshop%20Materials/Ramp%20Management%20Workshop/20120419/20120419%20Ramp%20Workshop%205%20Presentation.pdf.

generators. The CAISO's discussion about how it will theoretically not overpay for opportunity costs misses the point entirely.

Even if CAISO divides up the aggregate cost of flexible ramping capacity between load and generation, it has the burden to demonstrate that specific transactions will not be double charged. For example, if a load's usage deviates from its service schedule, the CAISO cannot also impose a flexible ramping charge on the generator from which the load obtains its energy.

Finally, the CAISO's tariff specifies that "The CAISO, whenever possible, will increase its purchases of an Ancillary Service that can substitute for another Ancillary Service, when doing so is expected to reduce its total cost of procuring Ancillary Services while meeting reliability requirements."[5] Flexible ramping will provide capacity that will likely lower the CAISO's costs of procuring other ancillary services, especially regulation service, yet none of the CAISO's draft proposals have considered this benefit, or how it should be treated from a ratemaking perspective. That analysis is critical to preserve rate harmony and avoid improper cross-subsidies since load pays for ancillary services other than flexible ramping, while the CAISO proposes to allocate the cost of flexible ramping to generators as well as load, thereby creating the potential for an impermissible rate mismatch in the overall cost of ancillary service procurement.

Finally, the CAISO can avoid the ancillary service cost allocation thicket that arises from its decision to treat flexible ramping as a new product to be provided to the market. It could do so by following the lead of the MISO, as mentioned above, and model its forecasted ramp needs as part of the overall unit commitment process. While doing so means that the cost of procuring this capacity will need to be borne by load, as MISO has recognized, load will also benefit from an overall reduction to the cost of ancillary services, thereby resulting in a lower total delivered

[5] CAISO Tariff § 8.2.3.5 (Ancillary Service Substitution).

cost of power. Using this more explicit and transparent cost recovery approach avoids ratemaking and cross-subsidy concerns, without running afoul of FERC's policies concerning the recovery of ancillary service costs.