

Comments on CAISO's February 4, 2016 Frequency Response Draft Final Proposal

February 23, 2016

On February 4, 2016, the CAISO released the Frequency Response Draft Final Proposal.¹ On February 9, 2016, the CAISO held a workshop² to review and discuss the Proposal. The California Department of Water Resources State Water Project (CDWR) appreciates the opportunity to submit comments.

CDWR supports the CAISO's Phase 1 efforts to shift its frequency response obligations to another BAA, if it is the lowest cost solution. However, CDWR does not believe that allocation of transferred frequency response costs should fall solely on measured demand simply because it is consistent with how it has been done in the past. Since the core of meeting the new primary frequency response (PFR) requirements is to make the energy system more reliable, this reliability benefits everyone, not just load. Therefore, allocating the cost of maintaining a reliable energy system only to measured demand is irrational and discriminatory. Measured demand should not be the default payer of a service that benefits everyone.

CDWR supports a long-term Phase 2 solution if a market constraint or product can be a better and cheaper fit. CDWR continues to believe that if a minimum governor performance requirement is part of the Phase 2 plan, it must be applied universally among all supply technology types (synchronous and asynchronous). If there are additional costs to procuring extra primary frequency response capability, this cost should be allocated to all market participants based on the CAISO's Cost Allocation Principles.

If an accurate PFR cost causation mechanism is not practically achievable, then CDWR believes that the next best solution is a "negotiated" cost allocation mechanism that will align frequency response costs with the distribution of benefits. This negotiated cost allocation mechanism can take into account (1) the benefits that generators, imports, loads, and exports receive from having enough primary frequency response, and (2) the benefits that purely financial transaction stakeholders receive from having a stable and reliable energy market. CDWR, in general, believes that no frequency response compensation mechanism should be implemented without also having a fair and just cost allocation mechanism.

¹ http://www.caiso.com/Documents/DraftFinalProposal_FrequencyResponse.pdf

² http://www.caiso.com/Documents/Agenda_Presentation_FrequencyResponseDraftFinalProposal.pdf