July 9, 2013

Chair Robert Foster
Governor Ashutosh Bhagwat
Governor Angelina Galiteva
Governor Richard Maullin
Governor David Olsen
California Independent System Operator
Folsom, California
Via email to Stacey Karpinen (SKarpinen@caiso.com)

RE: FERC Order No. 764 Market Design Changes – Industry Perspective Regarding Protective Measures for PIRP Resources

Dear Chair Foster and Governors Bhagwat, Galiteva, Maullin, and Olsen:

We are very appreciative of the fact that, since our May 21, 2013, correspondence to you on this topic, CAISO Staff have conducted further outreach to understand the full gamut of situations under which the elimination of monthly deviation netting under the Participating Intermittent Resources Program (PIRP) may have a significant negative impact, which may inform the development of protective measures required to mitigate such impacts. Since that time, CalWEA has also met with CAISO Management to discuss possible solutions, including appropriate protective measures. Although we are not aware of what specific information CAISO Management will share with the Board in its July 11 briefing, we wish to share our thoughts and recommendations at this juncture.

Protective Measures

We understand that there is at least one potential protective measure that would not require any design changes in the new market software. Essentially, the Scheduling Coordinator for the affected resource would perform a simple spreadsheet calculation to compare imbalance energy settlements under the current PIRP, including monthly imbalance energy netting, against imbalance energy settlements under the new market. The Scheduling Coordinator would then be reimbursed for any negative impacts shown, with the cost of the reimbursement charged to load-serving entities (LSEs). (Note that, if the CAISO's wind forecasts are unbiased, as is the goal under PIRP, the expected net cost should be near-zero.)

CAISO Staff have asserted that wind resources – even those with old technology incapable of responding to market signals or with contractual constraints preventing optimum scheduling – will be better off under the new market. If that proves to be the case, then providing the protective measure described above would provide a cost-free "backstop" that will provide wind project operators with the assurance that adverse impacts resulting from the new market will, should they arise, be compensated. Further, CalWEA would support a proposal under which wind projects would forego any "upside" from the new market in exchange for the envisioned PIRP-facsimile backstop. (That is, if the simple spreadsheet calculation described above shows a net benefit, then the Scheduling Coordinator for the Project would be debited for the amount of such net benefit, with the resulting revenue allocated to LSEs.)

While this appears to be a relatively straightforward solution, we urge the Board to ensure that CAISO Management fully develops this protective measure for consideration prior to the September Board meeting to confirm its feasibility and ensure that it can be included in the tariff proposal that will come before the Board in November, should the Board approve protective measures for some or all of the circumstances identified by CalWEA. Issues that would need to be addressed would, for example, include clarification of the procedures for billing, settlements validation, and dispute resolution relating to the protective measures calculations.

Despite concerns raised by Management, a much cleaner solution would be to build the same protective measure (PIRP settlement mechanism) into the CAISO software for the new market, which appears to us to be a relatively simple element as compared to the new market features being deployed for FERC Order 764 compliance. From a macro perspective that includes impacts to market participants as well as the CAISO, this would be much cleaner and simpler to implement than a separate spreadsheet approach.

Building the PIRP monthly netting mechanism into the new software would also provide the framework needed for the CAISO to provide a one-year transition period as a general transition measure for any market participant, on an optional basis, to facilitate their adaptation to the new market. Such a transition period could, for example, better enable variable generators to understand the capabilities that will be required to successfully operate in the new market.

Eligibility for Protective Measures

We continue to believe that it is reasonable to make protective measures available to all projects comprised principally of early wind technology lacking automatic controls, whether or not they are operating under a new RPS contract, especially given the availability of the practical protective measure described above. (It would be arbitrary, for example, to apply protective measures only to those older projects that have entered into new RPS contracts.) Many of these projects have years of commercial life remaining, and it would be unfair for these projects to incur charges because they were designed for a prior market structure and are physically incapable of responding to new market signals. These charges could be very damaging to projects that require continual maintenance or remain subject to debt service, yet the project may be unable to be repowered with new technology. Among other things, a repower generally requires a new power purchase agreement, which are currently scarce.

It would also be reasonable and appropriate to make this practical protective measure available to projects under RPS contracts that require adjustment due to the demise of the current PIRP monthly netting feature, should utilities not agree to accept the imbalance energy risk. To do otherwise would be to subject projects to the monopsony power inherent in contract renegotiations between a single project and a utility.

All told, the generating capacity of projects subject to protective measures would appear to constitute a relatively small fraction of the variable energy resources in the CAISO market, given the approximately 10,000 MW of variable resources that will be on the grid by 2020.

Thank you very much for your continued consideration of this issue.

Sincerely,

Nancy Rader
Executive Director

cc: Stephen Berberich, President and Chief Executive Officer
Keith Casey, Vice President, Market and Infrastructure Development
Karen Edson, Vice President, Policy and Client Services