

**CAISO RENEWABLES INTEGRATION & MARKET PRODUCT REVIEW, PHASE 1**  
**Comments of the California Wind Energy Association on Draft Final Proposal**  
**November 14<sup>th</sup>, 2011**

The California Wind Energy Association (CalWEA) appreciates the opportunity to submit these comments on the following:

- **“Draft Final Proposal on Reforms to Energy Market”** (“Proposal”), the latest CAISO prior proposals in the Renewables Integration - Market & Product Review, Phase 1 (RI-MPR1) initiative; and
- The November 8<sup>th</sup> stakeholder conference call to discuss the Proposal.

Like the prior version, the Proposal would:

- (1) **Lower the CAISO decremental-energy bid-price floor** from the current -\$30/MWh, to -\$150 in the first year and -\$300/MWh in the second year.
- (2) **Modify the Participating Intermittent Resources Program (PIRP)**, to do the following:
  - (a) **Change the allocation of the “PIRP shortfall”** – the difference between the amount that Participating Intermittent Resources (PIRs) would have paid in imbalance energy charges without PIRP and the amount that they pay with the PIRP “netting” mechanism;
  - (b) **Retain the program into the future**, and extend eligibility to resources importing into the CAISO BAA under Dynamic Transfer provisions (CAISO-provided intra-schedule balancing service).
- (3) **Revise the Bid-Cost Recovery (BCR) methodology** (largely applicable to fossil-fueled plants) to separate cost recovery in Day Ahead and Real-Time markets, to avoid disincentives to offering real-time economic bids with the lower decremental energy bid-price floor.

**Overview of CalWEA comments:** CalWEA continues to support the decremental-energy pricing and BCR proposals. We also strongly support the proposed PIRP program retention and eligibility expansion – these proposals are appropriate, in light of:

- Lack of demonstrated need for large quantities of additional decremental bids through 2020, as illustrated in the Appendix to our last submitted comments; and
- Findings in CAISO studies that the small amount of demonstrated need can be readily addressed through physical and economic curtailment provisions in power purchase agreements (PPAs).

CalWEA also appreciates the CAISO’s clarification on the conference call that the allocation of the “PIRP shortfall” to Load-Serving Entities (LSEs) buying from PIRP plants would not be optional for the LSE with respect to “existing” PIRs.

However, we continue to be extremely concerned about two other PIRP-related elements: (1) the CAISO’s contention on the conference call that the “existing” PIRs to which the mandatory LSE allocation would apply would only consist of those already operating in PIRP; and (2) the proposed resource-specific allocation methodology. We also urge the CAISO to reconsider its earlier rejection of the SMUD “Positive PIRP” proposal to suspend the PIRP monthly netting mechanism when real-time prices are negative.

The remainder of these comments focuses on these concerns.

**Allocation of PIRP revenue shortfalls – definition of “existing” PIRs**

While CalWEA believes that there is a strong justification for allocating PIRP shortfalls market-wide, allocation of the shortfall to LSEs buying from PIRP plants may also be appropriate, for both existing and new resources. Those LSEs are the ultimate beneficiaries of PIRP participation by these plants, through one of these two situations:

- **They are responsible for imbalance costs directly**, e.g., as the Scheduling Coordinator for the plant, so they benefit directly from the netting mechanism; or
- **Their contract terms reflect PIRP benefits if the plant is bearing imbalance costs**, i.e., risk mitigation from the netting mechanism allowed the developer to finance construction on reasonable terms and offer a price without adders for potentially high imbalance costs.

The written Proposal states (at p.8) that PIRP shortfalls will be allocated to LSEs buying from PIRs for “existing” plants (without LSE ability to refuse, as clarified on the conference call). The Proposal explicitly defines “Existing PIRs” as those “with an [sic] PPA (certified as a PIR prior to the date of the FERC order).”

This definition is very unclear, because there are PIRs that have PPAs but are not yet operating, i.e., they are not yet “certified as a PIR.” CAISO staff said on the conference call that this treatment for “existing PIRs” would only cover plants that not only have a PPA as of the date of the FERC order but were actually operating in PIRP as of that date. This definition:

- ***Would cause significant commercial harm***, imposing significant additional financial risks on plants under development and in some cases well into financing and/or construction, based on PPAs that may have been executed years ago and the PIRP provisions that have long been a part of the tariff; and
- ***Would deviate from past practice without any explanation of the need to do so.*** For example, the transition provisions for the Resource Adequacy-Standard Capacity Product (RA-SCP) provisions applicable to Variable Energy Resources (VERs) exempted projects with PPAs executed as of the date of FERC approval.

CalWEA urges the CAISO to clarify its position in the final written Proposal and provide that the mandatory allocation to LSEs would apply to projects with PPAs executed as of the date of the FERC order.

In addition, as we have stated before, new resources should still be allowed to participate in PIRP if LSE consent is required but not given, if the plant owner agrees to bear the shortfall for the plant. CalWEA made this suggestion in its comments on the last Proposal version, but the CAISO did not address it, and we request that the CAISO address this proposal in the final draft.

**Allocation of PIRP shortfalls – allocation between LSEs**

The Proposal retains the same shortfall allocation methodology as the last version, i.e., the allocation would be equal to the actual shortfall for each generator. The results of the proposed methodology are summarized below.

PIR	MONTHLY GENERATION	TOTAL IMBALANCE-ENERGY COST		ALLOCATION TO GENERATOR SC		ALLOCATION TO LSE SC	
		TOTAL	Per MWh	TOTAL	Per MWh	TOTAL	Per MWh
A	9,000 MWh	\$72,000	\$8.00	\$15,000	\$1.67	\$57,000	\$6.33
B	7,500 MWh	\$48,000	\$6.40	\$35,000	\$4.67	\$13,000	\$1.73
<b>TOTAL</b>	<b>16,500 MWh</b>	<b>\$120,000</b>	<b>\$7.27</b>	<b>\$50,000</b>	<b>\$3.03</b>	<b>\$70,000</b>	<b>\$4.24</b>

Where the generator SC and the LSE SC are the same entity, that entity would be allocated the entire IE amount for the generator – i.e., the exact amount that would have been allocated without the PIRP program. LSEs scheduling for PIRs use PIRP (when they choose to) in order to mitigate the risks of imbalances, especially negative deviations from schedule when market prices are high.

Since LSEs are the SCs for the PIRs they buy from in most contracts executed over the past few years, this facility-specific allocation would remove all benefits of PIRP in most cases; these LSEs would have to pay the exact amount under the new structure as if there was no PIRP at all. This entirely undercuts the CAISO’s decision to retain PIRP by effectively “gutting” the program through the allocation provision, as multiple parties pointed out on the conference call.

Instead, the CAISO should treat PIRP as the insurance program it will become under the new structure by doing the following:

- Aggregate the total monthly PIRP shortfall amount across all plants scheduling in PIRP; and
- Allocate that amount for each plant based on the volumes scheduled each month in PIRP.

This would mitigate risks by pooling positive and negative shortfall amounts for different plants, a risk-mitigation tool absent under the Proposal. As CalWEA has pointed out before, this approach would be consistent with accepted practice in pooling the cost of joint services (such as reserves). For example, the CAISO does not bill every load for Regulation service separately based on that load’s specific needs; instead, it determines the need for Regulation for load as a whole and allocates the total costs of the service proportionally. The CAISO should take the same approach with PIRP service.

### ***PIRP suspension when RT prices are negative (“Positive PIRP”)***

SMUD and CalWEA have proposed suspending the PIRP netting mechanism when real-time prices are negative. That would give PIRP participants an incentive during those periods to reduce their usage where they are able.

PIRP resources are now paid their HASP self-scheduled MWs times the weighted-average hourly LMP. Real-time deviations from that schedule (for any reason) are addressed under the PIRP monthly netting treatment.

Generally, negative real time prices are a signal to generators to reduce their generation into the grid, and VERs could also respond in that manner. However, if a PIRP generator reduces its production in real time and PIRP netting is not suspended:

- ***The HASP self-schedule would be settled at the hourly weighted-average (negative) LMP***, i.e., the generator (as noted above) would owe a payment to the CAISO despite the output reduction; and
- ***The deviation from the HASP schedule would go through the monthly PIRP netting, and the generator would likely be charged instead***, at the monthly weighted-average (probably positive) RT price. In other words, these generators would not benefit from any reductions below schedule to benefit the system, because the PIRP netting mechanism would keep those RT output reductions from translating into payments to the generators.

PIRP suspension under these conditions would require a settlements change. However, real-time software changes, which can be more problematic, would not be needed.

The last Proposal version did not adopt this concept out of fear of what the CAISO called the “hideous snake” effect – where PIR resources (along with other generation) would all respond to the negative price by curtailing without economic bids, driving the price positive in the next interval, and then repeating the cycle. In other words, the CAISO is worried about too much price responsiveness – “price chasing” that could “lead to system instability.”

Promotion of PIR response to real-time prices is consistent with the entire intent of RI-MPR1 to encourage price-responsiveness. The CAISO’s concern that this response would be made without an economic bid can simply be remedied by allowing economic bids for PIRP, which it is already addressing in RI-MPR2.

In any case, this common-sense proposal is needed as much as the proposed BCR changes to address the lower bid-price floor. Highly negative real-time prices are a strong signal that generator output reductions would benefit the system, and the CAISO should not forego the opportunity to encourage this beneficial response.

As we noted before, the principle here is more important than the exact mechanism for implementing it. CalWEA believes that its proposed methodology – PIRP suspension when the weighted-average real-time price is negative – is the best and most direct means; however, we have no objection to the interval-specific mechanism proposed by SMUD. This will be a much simpler methodology issue to resolve than the BCR issues, and we continue to urge the CAISO to either adopt one of these proposals or hold a quick conference call to address the issue.