CAISO RENEWABLES INTEGRATION & MARKET PRODUCT REVIEW, PHASE 1

Comments of the California Wind Energy Association on Fifth Revised Straw Proposal

October 12th, 2011

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

- ***"Fifth Revised Straw 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 October 5th 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 PIRP plants would have paid in imbalance energy charges and the amount that they pay after the PIRP "netting" mechanism is applied;

(b) Retain the program into the future, and extend eligibility to resources importing into the CAISO BAA under Dynamic Transfer provisions (where CAISO provides 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;
- Findings in CAISO studies that the small amount of demonstrated need that has been demonstrated can be readily addressed through physical and economic curtailment provisions in power purchase agreements (PPAs); and
- Consideration in Phase 2 of the RI-MPR effort (RI-MPR2) of more-granular scheduling and other provisions that could lessen the need for PIRP by making Variable Energy Resource (VER) imbalances from forward schedules easier to manage.

However, we continue to be concerned about the details of the CAISO's PIRP-related proposals – specifically, the ongoing lack of clarity about the party that would bear the shortfall allocation and the proposed resource-specific allocation methodology. The remainder of these comments focuses on: (1) those concerns; and (2) our support for the SMUD "Positive PIRP" proposal to suspend the PIRP monthly netting mechanism when real-time prices are negative.

Allocation of PIRP revenue shortfalls – parties bearing the PIRP shortfall

<u>Proposal:</u> The written Proposal clearly states that PIRP shortfalls will be allocated to LSEs buying from PIRP plants. The Proposal says that:

(1) "PIRP will be retained for existing resources" (Proposal at p.3);

(2) New plants can enter PIRP if the owner and the LSE buying the plant output "provide a letter to the ISO confirming their desire to place the resource in PIRP" (Proposal at p.3);

(3) For resources to participate in PIRP, the LSE buying from the VER must be identified, i.e., "the PIRP resource and the LSE **will** jointly certify" the LSE identity, its SC, the percentage of the total plant output contracted, and the expiration date of the contract (emphasis added – Proposal at pp.6-7); and

(4) PIRP shortfalls will be allocated to those LSEs, i.e., "after the end of the month, the netted deviations for each PIR will be allocated to each SC of the LSE…" (Proposal at p.7).

Thus, existing plants can stay in PIRP, and new plants can enter the program (though LSE consent may be required). There is no requirement that the LSE consent for "existing" PIRP resources to stay in the program, only that the LSE be identified so that the shortfall share for the plant can be properly allocated.

However, the CAISO presentation and narration on the conference call was confusing and contradictory. One CAISO representative stated that the "certification" to identify the LSE buying from the plant means that LSEs must consent to be billed for the shortfall for both even for existing and new PIRP resources, and that the former would actually become ineligible for the program without that consent.

These statements were then contradicted by another CAISO representative, who said that: (1) existing PIRP resources could stay in the program; and (2) the LSE identification was needed for billing purposes only, i.e., that LSE consent for that billing would not be needed for either existing or new PIRP resources.

<u>CalWEA positions on these issues</u>

- ***<u>Allocation of the shortfall to LSEs buying from PIRP plants is appropriate</u>***, for both existing and new resources. Those LSEs are the ultimate beneficiaries of PIRP participation by these plants, through one of these two situations:
  - **<u>They are responsible for imbalance costs directly</u>**, e.g., as the Scheduling Coordinator for the plant, so they benefit directly from the netting mechanism; <u>or</u>
  - **<u>Their contract terms reflect PIRP benefits if the plant is bearing the imbalance costs</u>**, i.e., the risk mitigation from the netting mechanism allowed the developer to finance construction on reasonable terms and offer a price that did not have to reflect adders for potentially high imbalance costs.
- ***<u>Existing PIRP resources should be allowed to stay in PIRP</u>***, as the Proposal states. "Existing" resources should be defined as those with PPAs executed as of the date that FERC approves tariff provisions to implement the new policy, consistent with recent grandfathering provisions in other areas (e.g., Resource Adequacy Standard Capacity Product (RA-SCP) rules).

Moreover, the LSE can simply be identified through provision by the plant owner of a redacted copy of the PPA with the LSE's signature, MW contracted (or statement that all the plant capacity is covered), and expiration date should be sufficient to identify the LSE and establish the necessary billing – there is no need for the LSEs to be involved in identifying itself or "certifying" anything. The CAISO then already has sufficient information in its records to identify the LSE's SC through the Schedule 1 submittals for its SC Agreements.

- ***LSE consent should not be required for PIRP participation of new resources either***, though this provision is less problematic than for existing PIRP resources (as defined above). The CAISO should just bill the LSE SC and let the parties work out the division of responsibility through their PPA negotiations. The LSE can be identified using a redacted PPA, as described above.

- ***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.

Allocation of PIRP shortfalls – allocation between LSEs

Proposal: 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. The Total Imbalance Energy cost would be allocated

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
TOTAL	16,500 MWh	$120,000	$7.27	$50,000	$3.03	$70,000	$4.24

Where the generator SC and the LSE SC are the same entity (e.g., the LSE, for most contracts over the last few years) 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.

No change was made despite considerable discussion at the last meeting that this allocation would remove all benefits from the program and, and stakeholder support there for a proportional shortfall allocation based on volumes scheduled in PIRP, instead of actual project-specific shortfalls.

CalWEA positions

- ***The total monthly PIRP shortfall amount should be aggregated across all plants scheduling in PIRP and allocated based on the volumes scheduled each month in PIRP.*** This would mitigate risks by pooling positive and negative shortfall amounts, and high and low amounts – a risk-mitigation tool absent under the Proposal.

- ***There is no purpose to providing "transparency" through the proposed allocation methodology.*** The Imbalance Energy (I/E) cost is purely a function of the accuracy of the forecast, and neither the generator nor the LSE has any influence over that. If the forecast is inaccurate by a large amount and/or during hours when the Locational Marginal Price (LMP) at the generator location is high, the I/E cost will be high.

- ***The Proposal fails to recognize that PIRP will be an insurance program under the new construct.*** The main purpose of PIRP has always been to protect the party responsible for scheduling for the plant from large cost exposure from inaccurate forecasts and schedules (see above), given the CAISO's inflexible hourly scheduling process and 10-minute schedule assumptions, and (more recently) the Resource Adequacy Day Ahead Must-Offer Obligation.

  A PIRP shortfall split based on scheduled PIRP amounts could result in the SC for PIR B in the example paying more in that month than under the proposed plant-specific allocation. However, that SC would receive "insurance" protection against the possibility that its plant-specific costs could have been much higher. Moreover, the situation may be reversed in the next month, and imbalance costs for PIR B could be larger than average, again for reasons beyond the control of the generator or the LSE.

  An analogy can be drawn to medical insurance. The premiums paid by an insurance company's customers must cover the cost to treat the illnesses of the customers that get sick, but only a few of them will be sick at any given time. It is possible that, over time, some customers will pay more than the cost of their specific illnesses; however, even those customers have received the benefit of the insurance protection against catastrophic expenses. Certainly, if the insurance company paid for cancer treatment for a customer, for example, but then tracked the hundreds of thousands of dollars the treatment cost and then billed it back to the patient, the insurance would be worthless.

  In the electricity markets and at the CAISO, pooling the cost of joint services (such as reserves) is an accepted practice. For example, the CAISO does not bill every load for Regulation service separately based on that load's specific needs would be separately; 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.

- ***The split between the Generator SC and the LSE SC is irrelevant for most contracts***, including all new IOU pro forma PPAs, because the generator SC and the LSE SC will be the same entity – the LSE itself. The LSE would thus have to pay the exact amount under the new structure as if there was no PIRP at all, i.e., the Proposal would effectively eliminate any PIRP benefit for these plants.

  Even where the Generator SC and the LSE SC are different parties, the LSE would take into account its possible I/E exposure in its price offers, so effectively the generator would bear the cost. Moreover, that risk would be impossible to estimate in advance, since neither party would have any way to know in advance how accurate the PIRP forecast would be in advance.

- ***The method that the CAISO proposes is better for the generator only for existing contracts where the Generator SC and LSE SCE are different*** and where the LSE would not be able to put the additional risk and associated cost back on the generator, and then only if the LSE has no choice but to accept the shortfall. Even then, some contracts contain re-openers if there are major changes in PIRP, and the proposed changes could be considered as such depending on the definition. The likelihood of contract disruption from this change would be much greater if the LSE is facing a plant-specific risk than a netted, pooled risk amount.

PIRP suspension when RT prices are negative ("Positive PIRP")

Proposal: 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.

As discussed at the last meeting, the PIRP suspension would require a settlements change. However, real-time software changes, which can be more problematic, would not be needed.

The Proposal does not adopt this concept out of fear of what the CAISO has called the "hideous snake" effect – where PIRP resources (along with other generation) would all respond to the negative price by curtailing, 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."

As some might say, "we should all be so lucky." It is odd, at best, for the CAISO to worry about too much response to real-time prices when its main concern (indeed, a prime motivator for the RI-MPR1 effort) is too little real-time price responsiveness. Its concern about price response 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 BCR changes to address the lower bid-price floor. Highly negative real-time prices are a signal that the system is in trouble and needs generators to reduce their output, and the CAISO should not forego the opportunity to encourage this beneficial response.

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 objective to the interval-specific mechanism proposed by SMUD. This will be a much simpler methodology issue to resolve than the BCR issues, and the CAISO should hold a quick conference call to address it.