

**Comments of the California Wind Energy Association and the
Large-scale Solar Association on the CAISO RI-MPR Phase I Straw Proposal
May 10th, 2011**

The Large-scale Solar Association (LSA) and the California Wind Energy Association (CalWEA) hereby submit comments on the following:

- “**Second Revised Straw Proposal on Reforms to Energy Market**” (“Proposal”), an April 26th update to the CAISO’s prior proposals in the Renewables Integration – Market & Product Review, Phase 1 (RI-MPR1) initiative; and
- The April 3rd CAISO conference call to discuss the Proposal.

The Proposal would: (1) lower the CAISO decremental-energy bid-price floor from the current - \$30/MWh to -\$300/MWh; and (2) eliminate the Participating Intermittent Resources Program (PIRP), effective 12/31/2014, except for plants with old/outdated technology that the CAISO determines would be too expensive to retrofit for dispatchability. While the PIRP program remains, resources inside the CAISO would be continue to eligible to participate, on the same basis as today.

The current CAISO proposal departs from earlier versions in following ways:

- Abandons the CAISO’s attempt to offer a substitute for PIRP that would reduce scheduling and imbalance-energy risk for Variable Energy Resources (VERs). The CAISO stated on the conference call that some actions under consideration in RI-MPR Phase II (RI-MPR2) – e.g., more granular scheduling – might help mitigate risks caused by PIRP elimination, but the Proposal does not include any coordination with those changes or commitment to such changes.
- Reduces the grandfathering period for current or contracted PIRP resources (except the older resources mentioned above) from the 5 years originally proposed to about 3 years. The CAISO states that the large amount of VER capacity expected to come on-line in 2015 justifies the earlier termination date.

Overview of comments: CalWEA and LSA are disappointed at the Proposal’s regression to a position that is actually worse for VERs than the original CAISO proposal, i.e., that the result of the considerable volume of thoughtful comments that stakeholders have submitted in this process has produced only this big step backward. Our specific comments are summarized below and further explained in the remainder of this document.

- ***The CAISO has not demonstrated that PIRP elimination is needed, or that it will increase overall market efficiency.*** Eliminating PIRP will disrupt commercial market activity, and the CAISO has not shown that the potential benefits would exceed potential costs.
- ***The CAISO has a responsibility to mitigate any potential disruptions from any PIRP modification or elimination*** in a package with mitigating actions, and not in isolation from other potential changes that might result from RI-MPR2.

The CAISO has not demonstrated that PIRP elimination is needed to address potential over-generation conditions.

- **Need for downward flexibility from VERs:** On the conference call, the CAISO referenced its recently released 33% RPS analysis results. While still preliminary, those results indicate a need for up to 1200 MW of additional downward flexibility under certain scenarios.

However, the results released do not include any information about the timing or frequency of such conditions. It is our understanding that these conditions would exist only over a few hours each year - not a significant amount of curtailment. For example, 3-6 hours of that maximum level of curtailment a year, even priced at -\$250/MWh, would amount to just \$1-2M.

Moreover, those results assume that existing gas-fired generation would be used to provide integration services and assume the operating limitations of that generation. Additional faster and more flexible resources (e.g., new, more flexible gas generation, storage and/or demand-side resources) should provide additional capability that would reduce the need for involuntary curtailments, and their potential speed can reduce the amount of integration resources needed (and total costs) as well.

The CAISO has not shown that PIRP elimination would increase overall market efficiency.

- **Additional economic bids from VERs:** The CAISO has not demonstrated that PIRP elimination would result in additional economic bids from VERs, compared to a reformed PIRP that would allow economic bids (as LSA and CalWEA have proposed). We understand that lack of an explicit PIRP mechanism has not resulted in significant economic bids from VERs in other ISO markets (which the CAISO said it would investigate at an earlier meeting in this initiative but apparently has not done so). The discussion on the stakeholder conference call by certain LSEs casts additional doubt on their intention to bid in VER output where they are the SCs.

Moreover, even if PIRP elimination did lead to more economic bids from VERs, that doesn't mean that the value of the change would exceed the cost of the problems that such elimination would cause. The choice in that situation would be between: (1) no PIRP and economic bid-based generation curtailment; and (2) PIRP and administrative-based (e.g., pro-rata among all but must-run plants) generation curtailments, for what is likely to be a very limited number of hours (see above). CalWEA's and LSA's strong preference would be the latter, based on the overall relative cost to our industries. In other words, the cost of administrative curtailment will be far less than the cost to cover imbalance risks.

- **PIRP revenue "shortfalls:"** As we have stated before, PIRP was never intended to be a subsidy program and was accepted by FERC on that basis. It is a risk-management program and was designed to eliminate any shortfalls over time. Eliminating that insurance will impose market costs, as parties financially responsible for imbalances must cover all conceivable risks in their contracts and pricing.

Despite repeated requests, the CAISO has not explained why there would be any systematic financial shortfall in PIRP if the forecast is unbiased, despite numerous requests for such an explanation. Positive and negative charges should roughly cancel each other out.

Moreover, the \$1.50/MWh imbalance-energy cost figure is an average, across many months, and is not consistent between customers or plants. The shortfall may be caused by some flaw in the PIRP forecast algorithm, or by other elements of the program that could be improved. However, the CAISO, perhaps because of its single-minded focus on eliminating PIRP, has not investigated this issue. (The total "shortfall" amount translates into only about 2 cents/MWh (\$0.00002/kWh) to consumers. Multiplying this figure by a factor of 10 or 100 would still yield an insignificant cost impact.)

The CAISO should also explain its proposal to eliminate PIRP based on its cost impact (which may be correctable) when it is not proposing similarly to eliminate other, more costly policies that accommodate generator operating characteristics (e.g., BCR for ramping energy and HASP pricing for imports).

- **“Market efficiency” and impacts elsewhere:** The “market” is more than just the CAISO’s imbalance-energy market. If PIRP limitation or elimination raise renewable-energy or other market prices or harms VER viability, that impact should be considered also.

The CAISO mentions “cost to comply” with respect to older technologies, but its concept of “cost” is too narrow – it considers only the direct costs of physical retrofits for dispatchability but excludes other relevant factors, like: (1) potential damage to equipment warranties (because frequent intentional downward movements may be inconsistent with the intended use of the equipment); or (2) any cost to revise contracts.

The Proposal also completely ignores potential costs and risks from changes in the Day Ahead (DA) Resource Adequacy (RA) Must-Offer Obligation (MOO). The CAISO first said that VERs would be subject to Use-Limited Resource (ULR) RA rules requiring DA scheduling of “expected” output, which would significantly increase imbalance risks. The CAISO then stated, as part of the last proposal, that it would retain the Hour Ahead (HA) MOO now in place for PIRP resources instead of the DA obligation.

However, the Proposal does not address this key issue at all, leaving stakeholders to wonder what the CAISO’s position actually is today. The ability to avoid the large financial risk through mandatory DA scheduling is a key PIRP element that should be continued in any case, regardless of any decision on retention of the PIRP netting provisions.

Eliminating PIRP will disrupt commercial market activity, especially without any mitigating measures.

- **New contracts:** As noted in our prior comments, PIRP elimination is likely to raise ratepayer costs, because: (1) when suppliers cover imbalances, they would have higher risks (and therefore higher financing costs); or (2) when buyers cover imbalances, they will likely discount VER bids accordingly and potentially pay more for non-CAISO VER resources.
- **Executed contracts not covered by limited proposed grandfathering**
 - **General:** The CAISO’s comments about the impact to existing contracts of eliminating PIRP are unfounded, because it has not investigated those impacts. The CAISO has simply made unproven assertions that the proposed expiration date (which was 5 years into the future and is now more like 3 years) would be sufficient for any necessary contract rewrites. The commercial terms of those contracts many not even allow such rewrites.
 - **Contracts where IOUs or other buyers are the SCs:** Many contracts have reopeners for significant CAISO market-design changes. The buyers that are responsible for imbalances may exercise these provisions in order to seek price reductions to compensate them for the increased risks, thus impairing the financial viability of the affected projects.
 - **Contracts where suppliers have their own SCs:** Other contracts have no reopeners for these kinds of major market changes, or only vague “meet and confer” provisions. In those circumstances, suppliers have no leverage to recover additional costs or mitigate risks from PIRP elimination.

Potential mitigation: The CAISO has a responsibility to consider PIRP modification or elimination together with any mitigating actions, not in isolation. The CAISO moved in this direction with its prior proposal, which included improvements such as forecasting and scheduling closer to real time, and it has stated that it is considering other potentially mitigating actions in RI-MPR2 – e.g., more granular scheduling. However, the CAISO has caused great harm already in proposing the worst measure now – eliminating PIRP protection, with a date certain – without any tie to potential mitigation measures.

We understand that PJM and MISO – whose markets the CAISO has cited as well-functioning without a PIRP-type mechanism – do, in fact, have hourly or daily netting of VER imbalances. The CAISO said on the conference call that it would investigate those provisions.

The CAISO should postpone consideration of PIRP elimination to RI-MPR2, where it can be considered in coordination with implementation of the mitigating actions and with greater understanding of how other ISOs have handled related issues. The CAISO is considering such coordination for changes to the Bid-Cost Recovery (BCR) mechanism and the bid-price floor, and there is no reason why it could not also be considered for PIRP.