

Dynergy Comments on Updated Straw Proposal
for a Standard Resource Capacity Product
December 18, 2008

Dynergy¹ appreciates the opportunity to submit these comments on the CAISO's December 4, 2008 Standard Capacity Product Updated Straw Proposal ("Updated SCP Proposal").

Comments on Availability

The CAISO's proposal to assess the availability of all SCP resources' availability based on a single standard number is consistent with the principles of a standard capacity product. The CAISO proposal appears to recognize and to address the reality that different types and vintages of resources provide RA capacity and that a "one size fits all" approach needs to accommodate that reality.

Dynergy supports the CAISO's proposed structure of applying financial penalties and bonuses to availability performance rather than applying adjustments to Net Qualifying Capacity("NQC"). Dynergy also supports the proposed +/- 2.5% deadband around the availability target.

Dynergy reiterates its previous comments that establishing a single availability performance target and assessing the same financial penalty for availability performance for all capacity would be equitable if all capacity were paid the same price. (The CAISO's example on page 18 erroneously uses \$3.33/kW-month instead of the flat monthly ICPM price of \$3.42/kW-month.) Applying a standard penalty price would be more equitable in a centralized market in which capacity would have an opportunity to earn a "standard" price. In a centralized market, the "standard" price would serve as an opportunity cost that also would likely inform the bilateral price.

The Updated SCP Proposal provides that:

There will be one availability standard, an *annual target availability*, that will be applicable to all resources during the upcoming compliance year based on the historic performance of the RA resource fleet during the peak hours during the previous 12-month period. (at p18)

but further provides that

An assessment of each resource's performance will be done *monthly* using the availability criteria described in the paragraph above... (at p18)

and that

The [availability] assessment will look at performance during RA peak hours in the *month*. (at p 18)

Based upon the above statements, it is unclear whether the CAISO will assess availability on an annual or monthly basis. It appears that the CAISO proposes to establish an annual target and assess performance monthly against that target, even though the "RA peak hours" are different in the months April through October and November through March.

Further, calculating an availability target over a 12-month period, but applying that target on a monthly basis, could be punitive. For example, if availability is assessed annually, a unit that suffers a forced outage in one month has the remaining 11 months to smooth out its availability performance. Assessing performance monthly does not provide that same opportunity. Moreover, if availability is assessed over a calendar year, and not over a longer rolling period, a

¹ "Dynergy" is, collectively, Dynergy Morro Bay, LLC; Dynergy Moss Landing, LLC; Dynergy Oakland, LLC and Dynergy South Bay, LLC.

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unit that suffers an outage in October has little time over which to bring that year's performance back to normal. At a minimum, availability should be assessed over the same period for which the availability target is determined. To that end, Dynergy requests additional detail on the CAISO's proposed method to calculate the availability target.

The proposal to assess availability performance in non-RA months (e.g., October through April) is not consistent with the current structure of the RA program. While Dynergy supports implementing the RA program on an annual basis, the current RA program applies on a month to month basis with showings required only for the months May through September.

Comments on availability for non-unit-specific resources

Dynergy understands the CAISO's conundrum regarding availability metrics for non-resource-specific imports and liquidated damages (LD) contracts. The fact that such resources count towards meeting RA program requirements undermines the intent and complicates the implementation of the RA program. The CAISO's proposal to measure availability based on how the "resource" offers into the CAISO markets is a reasonable place to begin discussions on this topic.

Comments on credit requirements

Dynergy supports the CAISO's proposal that does not impose credit requirements in the standard capacity product.

Comments on the Obligation to Offer Ancillary Services

In a "standard" capacity product, all resources, including hydro resources, which count toward meeting RA obligations should be required to offer Ancillary Services in the same way that thermal units are required to do so. Except in limited cases, hydro units have some flexibility to shift energy production over time periods longer than a day and producing energy from AS capacity is not an insurmountable challenge. For example, just because a hydro unit submits energy self schedules does not mean that the hydro resource is unable to produce energy as needed; it can likely defer future energy production. A "standard" product is not standard if it imposes obligations on certain types of resources but not others. If the CAISO's proposal differentiates the offering obligation based on the resource technology, it should also recognize other aspects – including the availability target – based on a unit's technology and vintage.

Dynergy reiterates its position that requiring an SCP resource to offer AS is problematic if the resource has sold a quantity of RA less than the unit's dispatchable minimum load amount. Using exceptional dispatch to move such a unit to the level from which it could be dispatched is an inappropriate extension of the CAISO's exceptional dispatch authority. For these reasons, a unit that has sold less than its dispatchable minimum load amount as RA should be exempt from offering AS.

Comments on Demand Response

Demand response that is allowed to count towards meeting RA requirements should meet all of the requirements of a standard RA capacity product, including availability performance and the obligation to offer to the CAISO. It is inequitable to allow demand response to count towards meeting RA obligation but not subject that product to the same requirements as other RA resources. In particular, Dynergy opposes the CAISO's proposal (at p 21) that emergency-triggered demand response resources would be exempt from availability standard and performance incentives.

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Comments on Unit Substitution

Dynegy supports the CAISO's proposal to develop a process to allow a non-RA unit to substitute for an RA unit.

Comments on Transition

Dynegy agrees that this topic warrants additional discussion.

Comments on Schedule

Many key issues, including complex issues regarding availability and transition, must be resolved before this product can be filed at FERC. Dynegy supports the CFMCA and CPUC position that it is better to get this product right than to get it out fast.

Comments submitted by Brian Theaker