Stakeholder Comments Template

Subject: Updating Interim Capacity Procurement Mechanism And Exceptional Dispatch Pricing and Bid Mitigation

Submitted By	Company	Date Submitted
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This template has been created to help stakeholders submit written comments on topics related to the June 9, 2010 "Updating Interim Capacity Procurement Mechanism and Exceptional Dispatch Pricing and Bid Mitigation" Issue Paper and June 16, 2010 stakeholder conference call. The Issue Paper and information regarding this stakeholder initiative can be found at http://www.caiso.com/27ae/27ae96bd2e00.html.

Please submit your comments on the items listed below in Microsoft Word to bmcallister@caiso.com no later than the close of business on June 23, 2010.

Your comments on any aspect of this stakeholder initiative are welcome. The comments received will assist the ISO with developing a straw proposal.

Interim Capacity Procurement Mechanism

1. Please provide your thoughts on the duration of the tariff provisions associated with a successor to the Interim Capacity Procurement Mechanism ("ICPM") and whether the tariff provisions should be permanent, i.e. there would not be a sunset date, or have some specified termination date. If you have a specific proposal, please provide it and indicate the reasons for your proposal.

   The CAISO should be obligated to re-visit the terms and conditions of the CPM on a regular (no less frequently than every two years) basis. That could be accomplished either by tariff provisions that sunset every two years or by codifying that obligation in tariff language.

2. Please provide your thoughts regarding the compensation that should be paid for capacity procured under ICPM and Exceptional Dispatch. If you have a specific proposal, please provide it and indicate the reasons for your proposal.

While the CAISO acknowledges that it does not support a Cost of New Entry (CONE) price as a uniform backstop price, the CAISO also acknowledges that CONE should inform the capacity backstop price, particularly in areas in which capacity margins are tight. Dynegy encourages the CAISO to re-examine the "demand curve" pricing concept it first raised, then summarily dropped, in the prior ICPM stakeholder process. As the CAISO is well aware, CONE has increased dramatically over the last few years, while the contribution of CAISO market revenues towards fixed cost recovery has plummeted.[1] An unshaped, $41/kW-year capacity price for a partial unit designation does not provide reasonable fixed cost recovery or reasonable value for reliability services provided for a term as short as 30 days for units that incur costs for their entire capacity range for an entire year. The CAISO must commit to an open and through re-examination of the capacity backstop price.

3. Please provide your thoughts on the ISO's suggestion to broaden ICPM procurement authority through creation of a new category that would allow the ISO to procure capacity for up to 12 months in order to make resources with operational characteristics that are needed to reliably operate the electric grid available to the ISO.

   Dynegy supports allowing ICPM to be a 12-month product. However, as long as the designation term, which could be as short as a month, remains at the CAISO's less-than-transparent unilateral discretion, there is a strong likelihood that ICPM revenues still will not provide reasonable compensation for the capacity services provided. While Dynegy does not object to the CAISO broadening its procurement authority, it must also commit to increasing the transparency regarding its decisions to designate or not designate capacity under its backstop capacity authority.

4. Please provide your thoughts on the ISO's suggestion to modify the criteria that would be used for choosing a resource to procure under ICPM from among various eligible resources so that it recognizes characteristics such as dispatchability and other operational characteristics that enhance reliable operations.

   Such criteria must be clearly identified and technically supported so that they bound, rather than increase, the subjectivity of the CAISO's decisions to procure one resource instead of another. Moreover, the CAISO should disclose how it used the criteria to select one resource instead of another.

[1] Issue paper at 11. See also the discussion regarding contribution towards fixed costs for gas-fired resources in the CAISO's 2009 Annual Report on Market Issues and Performance, Section 2.3, beginning at page 2.21.

5. Please provide your thoughts on the appropriate treatment of resources that may be procured through Exceptional Dispatch but then go out on Planned Outage during the period for which the resource has been procured. If you have a specific proposal, please provide it and indicate the reasons for your proposal.

   In the case in which the CAISO has exceptionally dispatched a unit that is scheduled to take a outage less than thirty days later, Dynegy supports allowing the owner the option of truncating the term of the designation or providing replacement capacity to extend the designation to a full minimum-term designation.

6. If you would like to identify other issues that you believe should be discussed in this stakeholder initiative, please discuss those issues here.

   Price. *In general, Dynegy does support one aspect of the current ICPM price, namely, that there is no explicit deduction for market revenues. The calculation of a peak energy (and ancillary service) rent deduction raises complicated and challenging issues, such as proxy heat rates, look-back versus look-ahead, etc. Dynegy remains open to considering a PER deduction from an appropriate capacity price, but does acknowledge the simplification afforded by not having a PER deduction.*

   Partial-unit designation. *Dynegy hopes that the CAISO will be willing to re-visit this issue as part of a comprehensive re-examination of its backstop capacity mechanism. While this issue in and of itself may not be unreasonable, it becomes unreasonable when coupled with a 30-day term, and an unshaped $41/kW-year capacity price.*

   Cap on Supplemental Revenues. *In light of the declining volumes of Exceptional Dispatch and the low number of ICPM designations touted in the Issue Paper, the CAISO should reconsider the need for a cap on Supplemental Revenues.*

<u>Exceptional Dispatch</u>

7. Please provide your thoughts on what fair compensation is for non-Resource Adequacy, Reliability Must-Run Contract or ICPM capacity that is Exceptionally Dispatched.

When the CAISO Exceptionally Dispatches a resource not under a capacity contract, it does so because it required the capacity from that unit to be available to ensure reliability. If the CAISO requires capacity from an RMR unit, such unit is provided with a year-long contract, recognizing that capacity comes from generating resources are long-life fixed assets that incur costs year-around, even if, because of load diversity, the need relates only to a single time during the year. Capacity service taken by Exceptionally Dispatching a unit without an RA contract should provide compensation for a longer period than a single month, compensation that provides a meaningful contribution towards the unit's fixed cost recovery. Neither price nor term should be considered in isolation, but as a package.

8. Please provide your thoughts on whether energy bids for resources dispatched under Exceptional Dispatch should continue to be mitigated under certain circumstances. If you have a specific proposal, please provide it, and indicate the reasons for your proposal.

Dynegy does not find it unreasonable that Exceptional Dispatches for non-competitive paths and for Delta Dispatch will continue to be mitigated. However, Dynegy finds completely unreasonable the process by which the CAISO simply deems paths not tested for competitiveness to be non-competitive. Given that the vast majority of the paths actually tested by the CAISO have been found to be competitive, the CAISO's stubborn adherence to the arbitrary 500-hour cutoff for testing and the CAISO's unwillingness to test more paths is even more unreasonable. Dynegy urges the CAISO to demonstrate its commitment to competitive markets by reducing or eliminating the 500-hour cutoff and moving to dynamic local market power mitigation sooner rather than later.

9. Please provide your thoughts on whether to change the categories of bids subject to mitigation under Exceptional Dispatch (Targeted, Limited and FERC Approved) and whether to extend the bid mitigation for the existing categories.

No response.

10. If you would like to identify other issues that you believe should be discussed in this stakeholder initiative, please discuss those issues here.

No response.

<u>Other</u>

11. Please provide any additional comments regarding any other topic that your want to address.

Dynegy appreciates that the CAISO is beginning the stakeholder process to re-examine the ICPM well before the ICPM's scheduled expiration date, rather than, as before, to allow the ICPM to expire so that its current terms must be extended by default. The terms and conditions of the CAISO's backstop capacity procurement authority have been, and likely will continue to be, contentious, and this contentiousness warrants an open and thorough re-examination of those terms and conditions. Moreover, the ICPM terms and conditions have far-reaching implications on other markets, including the Resource Adequacy ("RA") market. Dynegy looks forward to an open and thorough stakeholder process to review the terms and conditions of the CAISO's backstop capacity procurement authority.