# Responses to Stakeholder Comments on February 8, 2011 call on GMC Grandfathering

| Comments on proposal to grandfather certain generation units form system operations charges | | ISO comments |
|---|---|---|
| Calpine | On a conference call Tuesday, February 8, 2011, the CAISO proposed a grandfathering of certain contracts in order to mitigate the substantial bill impacts of its primary proposal to reform the GMC cost allocation. Calpine supports the grandfathering in both concept and implementation.<br><br><u>CAISO Proposal</u><br>The CAISO has proposed that certain pre-existing contracts pay a reduced GMC for the remaining term of the contract. Specifically, the CAISO limits the contracts to those with the following characteristics:<br>1. remaining terms of 3 years or longer on 1/1/11<br>2. the generator is the SC, and<br>3. Where an officer of the Company will attest to the inability to recover incremental GMC costs.<br><br><u>The Proposed Criteria are Appropriately Narrow</u><br>The criteria proposed by the CAISO narrowly circumscribe the pre-existing contracts that will be most directly impacted by the GMC cost allocation change. Indeed, the criteria identify contracts in which the GMC charge increases would be "trapped" with the supplier. Based on the CAISO's analysis, there are only 5 contracts that would qualify for the exemption.<br><br><u>The Rate Impacts of the Proposal are not Material on Others</u><br>Given the narrowly prescribed exemption, it appears that between 3 and 7 Twh (1.5 percent) of energy will be grandfathered. This will cause a slight reallocation of costs which in which all transactions share, including non-grandfathered transactions by the SC representing the grandfathered contracts.<br><br><u>The GMC Costs of Grandfathered Contracts Still Increase Substantially</u><br>The grandfathered contracts will still be obligated to pay the Market Service rate on all volumes. Calpine estimates that these charges, alone, will double the exposure to GMC costs for the grandfathered contracts when compared with actual GMC costs today.<br><br><u>The Impact of the GMC Change was Not Reasonably Foreseeable</u><br>Calpine agrees that by negotiating term contracts, parties must envision and assume reasonable risk. Small changes in assumptions can be and are reasonably foreseen and included in commercial trade. However, in the case of GMC, no reasonable party would have expected the dramatic shift in cost allocation proposed by the CAISO, a shift that increases exposure to some contracts by as much as 1000 percent. | Noted |

<table>
<tr><th colspan="2">Comments on proposal to grandfather certain generation units form system operations charges</th><th>ISO comments</th></tr>
<tr><td>SCE</td><td>SCE is opposed to a grandfathering of certain suppliers so that their supply would not be assessed the System Operations charge for a certain amount of time. SCE has previously stated its opposition to a phase in of the assessment of the System Operations charge to supply.<br><br>SCE has been supportive of the overall proposed new GMC structure, with its goals of simplification and cost causation, even though SCE will pay more under the proposed new GMC rate structure than under the current GMC rate structure. A phase in or grandfathering provision is in SCE's view unwarranted for the following reasons:<br><br>1. A grandfathering would blunt the cost causation effect of the new GMC rate structure. A major goal of the ISO in proposing the new GMC rate structure is that the charges to market participants reflect costs imposed by those market participants on the ISO. Waiving a charge that is cost-justified is clearly counter to that goal.<br>2. Grandfathering (or phasing in) results in costs that must be borne by others. Since the ISO's revenue requirement must be collected in total from market participants, any amount waived for one market participant must be collected from other market participants. Some of these market participants, as is the case with SCE, would already pay more under the proposed new GMC rate structure than under the current GMC.<br>3. The GMC rate structure has never been guaranteed to remain static. In fact, there have been two previous major redesigns of the GMC since the inception of the ISO. Market participants should anticipate this possibility in their contracting.<br><br>In the most recent document "Modification to 2012 GMC Straw Proposal Grandfathering Provision", issued February 8, the ISO proposes certain criteria whereby a supplier may qualify for grandfathering. A grandfathered supplier would then be exempt from the System Operations charge until the underlying contract that the supplier has to sell its power expires, or reaches a point of renegotiation. The ISO lists six criteria that are intended to limit grandfathering, without opening up the grandfathering exemption to undeserving suppliers. SCE is concerned that additional suppliers may qualify for grandfathering that are not really deserving of the exemption, despite the ISO's best efforts to limit the qualification through these six criteria. In SCE's view, the complexity of determining which suppliers should qualify for grandfathering is yet another reason why grandfathering should not be considered.<br><br>SCE urges the ISO to consider additional alternatives to the grandfathering proposal set forth in the "Modifications to 2012 GMC Straw Proposal Grandfathering Provision" prior to seeking Board approval of the GMC.</td><td>The ISO appreciates Edison's comments regarding the grandfathering proposal. Similar to the recent design change for the Market Usage-Forward Energy (MUFE), the ISO has proposed the contract grandfathering criteria to mitigate the impact of cost shifts associated with the proposed three bucket design. The ISO initially proposed a more broad based transition plan that would have been applied to all suppliers, but that proposal was overwhelmingly rejected by both suppliers and load serving entities. After further discussion with suppliers, the ISO determined the number of supply contracts that will be severely impacted by the new design are very limited in scope. The ISO recognizes SCE's assessment that grandfathering does not align with cost causation principles and could result in additional cost shifts to others that may also be facing cost increases. In addition, the ISO acknowledges SCE's point that market participants should factor future changes to GMC during contract negotiations. However, the ISO is also aware of the regulatory uncertainties associated with a GMC design that results in significant cost shifts to entities that are unable to recover the costs. The ISO believes that the grandfathering proposal is a reasonable compromise that achieves the goal of reasonable mitigation with minimal cost-shifting, and that the proposed grandfathering criteria achieve the rate impact mitigation goal. SCE urged the ISO to consider additional alternatives, but there have been no other alternatives proposed through the stakeholder process.</td></tr>
</table>

| Comments on proposal to grandfather certain generation units form system operations charges | | ISO comments |
|---|---|---|
| PG&E | PG&E supports adding the CAISO's proposed grandfathering provision to the 2012 GMC rate design straw proposal. By exempting generating units that meet a set of limited, specific criteria from the proposed MWh-based System Operations charge, the CAISO has addressed the concerns expressed by certain Stakeholders without broadly departing from its cost-based rate design principles. PG&E understands that, by proposing the grandfathering compromise, the CAISO seeks to limit or eliminate the issues FERC must resolve when the CAISO makes its 2012 GMC filing, and PG&E supports this aim. | Noted |
| Powerex | Powerex appreciates the opportunity to provide these brief comments on the CAISO's 2012 GMC Straw Proposal Grandfathering Provision.<br>Based on the information provided to Powerex by the CAISO, Powerex believes that the grandfathering provision is a reasonable compromise to mitigate the rate impact from the 2012 GMC Straw Proposal for the limited number of contracts that do not have the ability to flow through the additional GMC costs.<br><br>Powerex's acceptance of the grandfathering provision and the associated criteria is based on the information provided by the CAISO in regards to the volume of energy that would be grandfathered from the 2012 GMC rates. However, Powerex is concerned about the length of the grandfathering provision. The data provided to Powerex shows that certain units would be grandfathered through 2021.<br><br>Powerex's concerns on the length of the grandfathering provision are fairly minor based on the volumes provided but Powerex suggests that if the volume of energy subject to grandfathering increases significantly, the CAISO should limit the length of time for the grandfathering (perhaps to a maximum of three to five years) or phase out the volume of energy eligible for grandfathering over a reasonable period of time. | Noted- There have been no additional contracts submitted to date by generators. |
| Midway Sunset | Midway Sunset strongly supports the grandfathering proposal the ISO has suggested. | Noted |
| DC Energy | DC Energy appreciates the ability to present these limited comments on the proposed modification to the 2012 Grid Management Charge Straw Proposal Grandfathering Provision as presented on the February 8th Stakeholder Call. DC Energy does not oppose the grandfathering provision presented, however there was one alternative suggested that DC Energy does oppose.<br><br>Specifically the grandfathering proposal would exempt a limited number of generating units (that meet specific/limited criteria) from the System Operations charge until the first opportunity to renegotiate the contract or until the contract expiration. DC Energy is not a generation owner and does not benefit from this proposed modification. DC Energy agrees with the CAISO determination that the affect on the remaining participants that pay the | The grandfathering proposal is only applicable to the systems operations charge and no others. |

| Comments on proposal to grandfather certain generation units form system operations charges | | ISO comments |
|---|---|---|
| | System Operations charge will be extremely small compared to the extremely large impact that would be placed on a small number of participants and therefore does not oppose this limited exemption.<br><br>One participant on the call suggested that the amount of dollars that result from this exemption should be spread across all market participants. DC Energy opposes such socialization as it is contrary to cost causation principles that CAISO has determined an important principle in this cost allocation re-design and would further impact the large increase that certain participants (i.e., CRR holders) are absorbing with the 2012 GMC structure. | |