

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.

SCE agrees that the CAISO will continue to need a backstop mechanism like ICPM after March 31, 2011. Given that the CAISO has to file a replacement proposal by December 1, 2010. SCE is in agreement with the CAISO that a wholesale redesign of the core elements of the ICPM or Exceptional Dispatch tariff provisions is not feasible. Therefore, SCE supports maintaining the current overall ICPM structure without a specific termination date. However, the CAISO should draft its ICPM

replacement proposal in a manner that would allow the CAISO to have the ability to update certain elements of the ICPM on a periodic basis (e.g. have mechanisms to update the price paid for ICPM if the assumptions upon which the payment is based change significantly). SCE continues to support ICPM capacity payments based on going forward costs¹. The replacement to ICPM should not be a mechanism to incent the development of new generation. At this time, new generation development needs are being addressed by the CPUC in the 2010 LTPP.

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.

SCE supports maintaining the current payment structure for pricing the capacity awarded an ICPM contract, which is based on the going-forward costs of a new conventional simple-cycle unit. Where going forward costs are defined as the sum of fixed operations and maintenance costs, ad valorem costs, and administrative and general costs. SCE believes that the individual components of the payment structure should be reviewed periodically and adjusted, if necessary, to meet current market conditions.

One such adjustment to the Exceptional Dispatch payment structure SCE would like the CAISO to consider is to include RUC revenues into the supplement revenue cap calculation for non-RA resources that are Exceptionally Dispatched and decline the ICPM payment option.

¹ FERC in its October 16 2008 Order on ICPM stated:

We find that the proposed ICPM price of \$41/kW-year will result in appropriate compensation to resources that provide backstop capacity services. First, like the pre-MRTU backstop capacity mechanisms (i.e., RCST and TCPM), the ICPM is a mechanism for procuring capacity for short periods to meet system reliability needs and, therefore, is not designed to encourage new investment. Rather, the pricing structure is designed to ensure just and reasonable treatment of non-resource adequacy resources that are needed for reliability services and to provide an incentive to these resources to voluntarily accept ICPM designations. We find this position to be consistent with our previous findings that when similar reliability services are provided by non-resource adequacy resources and resource adequacy resources, similar compensation is warranted.³³ Also, we note that because acceptance of ICPM designations is voluntary, resources are free to decline an ICPM designation and pursue other avenues of recovering their fixed costs.

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.

SCE does not support the CAISO broadening its ICPM procurement authority to procure capacity from resources for up to 12 months that have certain operational characteristics as this has the potential of completely changing the current Resource Adequacy structure. What the ISO is proposing presents many issues that need to be fully vetted and discussed with stakeholders, such as:

- Incorporation of these operational characteristics upfront in the CPUC's RA process in order for LSE's to control RA costs
- Grandfathering
- Resource Qualification
- Description of operational characterizes and determination of [procurement need

The CAISO should not move forward with this concept here, but rather this should be discussed in the context of overall Resource Adequacy rules, and perhaps even the Ancillary Service product review process that will be starting shortly.

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.

As stated in question 3, SCE does not support the CAISO broadening its procurement authority to procure capacity with certain operational characteristics as it has the potential to completely change the Resource Adequacy structure.

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.

SCE agrees with the CAISO that the ICPM rules should be clarified to address this situation. SCE believes the ISO should either (1) address this situation by subjecting this resource to the full SCP rules or (2) simply prorate the ICPM payment based on the number of days the resource is available for the ICPM contract period.

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

No additional issues at this time.

Exceptional Dispatch

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.

SCE is supportive of the current payment options for non-RA resources that are exceptionally dispatched. As stated in question 2 above SCE suggests the CAISO consider include RUC revenues in the calculation of the revenue cap for non-RA resources that are Exceptionally Dispatch as decide not to elect an ICPM payment.

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.

SCE supports DMM's positions to continue with the existing mitigation rules for resources dispatched under Exceptional Dispatch. The existing mitigation rules are FERC approved and provide targeted mitigation for ED's needed for uncompetitive constraints and delta dispatch.

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.

See response to question 8.

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 additional issues at this time.

Other

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

No additional comments at this time.