

Stakeholder Comments Template

Subject: Capacity Procurement Mechanism, and Compensation and Bid Mitigation for Exceptional Dispatch

Submitted by	Company	Date Submitted
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This template was created to help stakeholders structure their written comments on topics related to the August 16, 2010 Draft Final Proposal for Capacity Procurement Mechanism, and Compensation and Bid Mitigation for Exceptional Dispatch. Please submit comments (in MS Word) to bmcallister@caiso.com no later than the close of business on September 3, 2010.

Please add your comments below where indicated. Your comments on any aspect of the proposal are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and the business case.

Overall Proposal

1. Whether you support the overall proposal.

SCE appreciates the effort put forth by the CAISO in developing the Draft Final Capacity Procurement Mechanism (“CPM”) Proposal and, as reflected within these comments, we support most aspects of the proposal. However, as detailed in our response to Question #7, SCE has strong concerns regarding the potential implications associated with the CAISO’s request for authority to procure capacity from resources at risk of retirement. Procurement of capacity identified as needed in a future Year 2 as discussed within the CAISO Draft Final Proposal does not, under the current market composite, fall under CAISO jurisdiction.

SCE agrees with and supports the CAISO’s need to run studies to identify attributes required to maintain grid reliability in future years and to identify which existing resources possess the required attributes. However, with the current forward year regulatory and market construct placing no requirements upon LSEs to procure capacity beyond Year 1, the CAISO’s role is and should remain limited to providing such information to the applicable state agencies (e.g., CEC, CPUC, State Water Board) and stakeholder processes (e.g., Once Through

Cooling, LTPP, RA). Further discussions will be needed to define how CAISO will secure these attributes, with whom the obligation to provide rests (i.e., the LSEs or the intermittent resource community) and cost responsibility.

In summary, SCE is unable to support the ISO's overall Proposal because of our strong opposition to the CAISO's request for authority to procure capacity from resources at risk of retirement through CPM contracts.

Below is a summary of the issues and SCE's position.

Support:

- Extend duration of tariff and eliminate a sunset date.
- Compensation to continue being based upon going forward fixed costs, excluding financial cost recovery components, and updated every two years.
- Prorate compensation for CPM-designated resources with planned maintenance outages.
- Adding selection criteria under existing designation authority regarding non use-limited resources.
- CAISO's interpretation that the existing Significant Event language provides the authority to procure capacity to address reliability issues associated with planned generation and transmission maintenance outages.
- Continuing to link compensation for ED to the CPM compensation.
- Extending the existing ED bid mitigation.

Do not support:

- CAISO's interpretation that they already can, via existing Significant Event language, procure capacity to backstop observed less-than-planned output from intermittent resources (i.e., when such resources are not performing up to their RA value).
- CAISO's request for authority to procure capacity at risk of retirement.
- CAISO's interpretation that they already can, via existing ED language, procure capacity to provide operational characteristics identified as needed to support the integration of variable energy resources.

2. Whether the proposal strikes the appropriate balance among difficult issues.

Because SCE believes that the proposal should be evaluated on an overall basis as asked in Question #1 and not, as implied by this question, on a give-and-take basis, we decline to answer this question.

Capacity Procurement Mechanism

3. Whether the tariff provisions should have a specific sunset date or be open-ended.

SCE concurs with the CAISO's philosophy that a durable backstop procurement mechanism is appropriate and we support the CAISO's proposal to eliminate a sunset date. SCE also supports the CAISO's proposal to adjust the compensation value as appropriate to remain consistent with the comparable going forward fixed cost components in future updates to the reference document.

With regards to the proposal "... to file ... and then to consider modifying the CPM payment for resource types having needed operational characteristics in conjunction with the renewable integration initiative...", SCE requests the CAISO to clarify that if the results of other stakeholder initiatives suggest that CPM compensation for some types of capacity should no longer be based upon the going forward fixed cost components (as currently defined), then the CAISO will reinstate the CPM stakeholder process to consider such modifications.

4. The ability to procure capacity for planned transmission and generator outages or sustained, significant less-than-planned-output of intermittent resources.

4.1: SCE concurs with the CAISO's proposal to have the ability to procure capacity to address reliability concerns associated with planned transmission and/or generator outages.

4.2: SCE remains opposed to the CAISO's proposal to establish authority to procure capacity when intermittent resources are not operating at anticipated levels. We disagree with the CAISO's interpretation that the existing Significant Event language provides such authority. Moreover, the CPUC has already addressed non-performance risk via the exceedance methodology used to count the RA qualifying capacity of intermittent resources. For the CAISO to procure capacity in addition to this would effectively increase the planning reserve margin. This is outside of the jurisdictional role of the CAISO.

SCE believes that the CAISO's recently initiated Outage Replacement Rule for RA Generators stakeholder process may be a more appropriate forum to discuss this topic. Suggesting that this topic be addressed in another forum should not be construed as support for the associated proposal, but rather our support to closely coordinate *all* discussions pertaining to unavailable (planned or unplanned) RA resources.

5. The proposed treatment of procured capacity that subsequently becomes unavailable on a planned outage during the period for which the capacity has been procured.

SCE supports the CAISO's proposal to prorate compensation based on the hours unavailable during planned outages.

6. Modification of the criteria under section 43.3 of the CAISO tariff for selecting capacity from among eligible capacity.

6.1: Adding non use-limited as a selection criterion.

SCE supports the CAISO's proposal to add selection criteria regarding non Use-Limited Resources (ULRs). However, as a follow-up to discussions during the August 23rd stakeholder workshop, SCE would like the CAISO to provide additional clarification as to how the CAISO will determine during which periods of time a ULR is or is not actually use-limited.

6.2: Adding operating characteristics as selection criterion.

SCE does not support the CAISO's proposal to add selection criteria regarding operational characteristics. Rather, if/when the CAISO's evaluations indicate that specific operational characteristics are needed, additional discussions will be required on how and when these operational attributes are procured, particularly on a forward basis; whether they will be centrally procured, if they will be bilaterally procured and who will have the responsibility to secure and pay for these resources. For example, if any ultimate solution impacts the current RA process, that must be coordinated with the CPUC. Discussions on market power and proposals to mitigate market power associated with these attributes should also be part of the process.

Without first letting the market know what operational needs the CAISO has and without designing a comprehensive structure to secure these attributes, the CAISO risks inefficient and duplicative backstop procurement, and in turn unnecessarily increasing costs to customers and distorting market outcomes.

7. Procurement of capacity that is needed for reliability and is at risk of retirement.

SCE does not support expanding CAISO authority to address risk of retirement in this forum. First, the CAISO's existing RMR authority provides the CAISO the ability to contract with a non-RA resource (including resources that may be at risk of retirement), on a year-ahead basis if needed for reliability. Second, longer-term (i.e., beyond one year) resource retirement impacts must be considered in close coordination with Local Regulatory Authorities, including the CPUC's LTPP. In Section 7.1.5 of the CAISO's Straw Proposal, the CAISO describes "Year 1" and "Year 2" scenarios regarding potential backstop procurement of capacity at risk of retirement (see page 23). Under the current RA program, LSEs are not under an obligation to procure RA capacity beyond a year-ahead. The CAISO

backstop authority must align with the procurement time frames adopted in the RA program. The CAISO has not demonstrated that the existing RA program, the CPUC's LTPP, and the CAISO's current RMR contracting authority are insufficient to address reliability needs associated with potential generation retirement. SCE strongly opposes the CAISO seeking in this CPM proposal additional contracting authority for resources at risk of retirement. SCE encourages the CAISO to participate in venues such as the LTPP to ensure that reliability concerns associated with potential generation retirement are adequately addressed.

Granting the CAISO authority to provide generators with a contract to preclude retirement has the potential end effect to create significant costs and market distortions, and should not be casually addressed as part of this process. This topic creates material incentive issues for generators; namely, if generators will continue to participate in the market or threaten retirement simply to obtain a CAISO contract. These incentives must be carefully and comprehensively addressed in order to limit perverse behavior and resulting market distortions. Moreover, this topic raises a host of additional complex issues including payments under the contract, cost allocation, possible coordination with the RA process (including the potential expansion of "attribute" requirements), the timing of when such a contract would be awarded, the treatment of market rents, obligations of generator performance, penalties for lack of performance, rights provided to the CAISO under the contract, and the interaction of CAISO instructions and generator market participation. These complex issues require full stakeholder discussion and involvement if a new form of contract is to be created. Given this complexity, simply using the CPM contract as proposed by the CAISO is clearly inappropriate.

8. The compensation methodology for resources procured under CPM and Exceptional Dispatch.

SCE supports the CAISO's proposal to continue using the non-capital recovery components of the going forward fixed cost components as reported in the CEC's Comparative Costs of California Central Station Electricity Generation report.

SCE also supports the CAISO's proposal to adjust the values of the respective compensation components as appropriate to remain consistent with the comparable components in future updates to the compensation source document.

Exceptional Dispatch

1. Linking compensation for Exceptional Dispatch to the CPM Payment.

SCE supports the CAISO's proposal to continue linking the compensation for Exceptionally Dispatched units to the CPM payment. However, this support is contingent upon the CPM compensation continuing to be based upon the going forward fixed costs components as defined within the current ICPM tariff.

2. Extending the existing bid mitigation.

SCE supports the CAISO's proposal to extend the existing bid mitigation protocols when a unit is Exceptionally Dispatched.

Other

1. Additional comments.

None at this time.