

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 has been created to help stakeholders provide their written comments on the September 15, 2010 "Revised Draft Final Proposal for Capacity Procurement Mechanism and Compensation and Bid Mitigation for Exceptional Dispatch." Please submit comments in Microsoft Word to bmcallister@caiso.com no later than the close of business September 29, 2010.

This template is structured to assist the ISO in clearly communicating to the ISO Board of Governors your company's position on each of the elements of the Revised Draft Final Proposal. In particular, the ISO is interested in whether your company generally supports or does not support each element of the proposal and your reasons for those positions. Please provide your comments below.

Proposal Element	Generally Support	Do not Support
1. File CPM and Exceptional Dispatch tariff provisions with no sunset date.	X	
2. Provide that ICPM procurement with a term that extends beyond March 31, 2011 can be carried forward into CPM and paid at CPM rate after March 31 without doing a new CPM procurement.	X	
3. Pro-rate the compensation paid to CPM capacity that later goes out on planned outage after being procured under CPM.	X	
4. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish a preference for non-	X	

Proposal Element	Generally Support	Do not Support
use-limited resources over use-limited resources.		
5. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish an ability to select for needed operational characteristics.	X	
6. Procure capacity to allow certain planned transmission or generation maintenance to occur.	X	
7. Procure capacity in situations where the output of intermittent Resource Adequacy resources is significantly lower than their RA values.		X
8. Procure capacity that is needed for reliability but is at risk of retirement.		X
9. Base compensation paid for CPM on "going-forward fixed costs" plus a 10% adder (\$55/kW-year per CEC report), or higher price filed/approved at FERC.	X	
10. Compensate Exceptional Dispatch at same rate as compensation paid under CPM, or supplemental revenues option.	X	
11. Mitigate bids for Exceptional Dispatches: (1) to mitigate congestion on non-competitive paths, and (2) made under "Delta Dispatch" procedures.	X	

Other Comments

The revised final draft of the Capacity Procurement Mechanism (CPM) issued September 15, 2010, continues to claim that the CAISO must be given authority

[f]ollowing appropriate consultations with stakeholders, to financially sustain resources that are in danger of shutting down due to lack of sufficient revenues in the current year and that the ISO has determined through operational studies will be needed the following year.¹

¹ CPM proposal at 3.

SDG&E believes this claim constitutes an unwarranted collateral attack on the CPUC's Resource Adequacy requirements (RA) and Long-Term Procurement Program (LTPP). Moreover, possessing this virtually unfettered procurement authority is *ultra vires* to the CAISO's limited role of operating the California grid and associated short-term energy and ancillary services markets. The CAISO has not explained why the "inefficient retirement" problem that it has described cannot be adequately handled by bilateral negotiations between load-serving entities and the owners of generating units that may seek to shutdown for want of adequate revenue from the energy and ancillary services markets. SDG&E again urges the CAISO to limit its backstop capacity procurement role to (1) curing aggregate RA deficiencies, system and local, and (2) addressing significant unexpected conditions that arise after the RA procurement and demonstration cycle has been completed.

After a vigorous five-year debate, the CPUC eventually reached a policy decision not to establish a multi-year, organized capacity market operated by the CAISO. Instead, the CPUC elected to continue relying on the bilateral RA and LTPP mechanisms to provide the CAISO with the resources that it needs to operate the system reliably. The CAISO plays a major role in the LTPP and RA proceedings by informing the CPUC of the amount of capacity needed in various load pockets to ensure reliable operations. Thus far, the CPUC has dutifully ratified these local capacity requirements, and required its jurisdictional load-serving entities to meet the resulting procurement obligations. In short, the current practice is for the CAISO to inform the CPUC and local regulators what it needs to operate the system reliably and in accordance with NERC requirements, so that load-serving entities – not the CAISO – can then procure the necessary resources under the supervision of the relevant regulator.

Seeking procurement authority to address inefficient retirement decisions puts the CPM cart before the LTPP/RA horse. The CAISO's limited back-stop procurement role should be just that: back-stop. It should only be triggered to cure short-term deficiencies in meeting the RA requirements or to address major unforeseen events arising during the RA compliance year.

Perhaps the CAISO has concluded *sub silentio* that bilateral negotiations between load-serving entities and near-retirement generators are destined to fail and thus produce economically-inefficient outcomes, but it has not favored stakeholders with that explanation. Instead, after noting that all major load-serving entities and the CPUC object to this aspect of the CPM proposal, the CAISO proceeds to eschew substantive analysis of the protests in favor of launching a largely irrelevant rebuttal focused on the limits of CPUC General Order 167. The net result is a perceived over-reaching to gain additional procurement authority without first explaining why the LTPP/RA mechanism is fundamentally unable to address the "inefficient retirement" problem.

The CPM proposal cannot be squared with the preeminent RA role reserved for state and local regulators unless the CAISO first demonstrates that the LTPP and RA programs are ill-suited to address generating unit retirement issues. Only after this *prima facie* showing, and after the CPUC has failed to take effective action to address any clearly defined shortfalls in the RA or LTPP mechanisms, should the CAISO then consider requesting authority to intervene in the ongoing bilateral negotiations between load-serving entities and near-retirement generators.

SDG&E believes that the LTPP and RA mechanisms are capable of addressing this kind of multi-year problem to the extent that the CAISO is able to predict accurately its reliability requirements for year two and beyond. If the CAISO is unable to make and defend these technical assessments as inputs to the LTPP and RA proceedings, then it surely should not be

given authority to speculate with other people's money in procuring additional capacity, especially under the inherently vague circumstances envisioned by the CPM proposal. The CAISO has no skin in the game and carries the bias associated with grid operators who understandably always want *more* resources. The CPUC wants both high reliability and lower total costs, so its biases are more likely to converge upon a neutral position. In any event, the law carries a strong presumption in favor of capacity procurement being regulated by state and local regulators, and so far the CAISO has failed to demonstrate that this problem cannot be handled within the context of the CPUC's RA and LTPP proceedings.

SDG&E urges the CAISO to consult with the CPUC in order to ascertain whether the CPUC believes the LTPP and RA mechanisms are able to oversee procurement of near-retirement generators efficiently without the CAISO possessing authority to intervene before a RA deficiency actually occurs. The CAISO should explain candidly its reasons for believing that the CPUC and local regulators are destined to fail in providing the CAISO with adequate resources to operate the grid reliably. If the CPUC accepts the CAISO's analysis, and offers support for an expanded backstop role for the CAISO, then the CAISO will be in a strong position to make its case at FERC. Otherwise, it will appear that the CAISO is intruding into an area that is already fully occupied and offering help where none is being requested. The CAISO has much unfinished business on its plate that needs urgent attention. It should prioritize its limited resources and expend them on matters that are clearly within its domain.