Stakeholder Comments Template

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

Submitted by	Company	Date Submitted
Bonnie Blair bblair@thompsoncoburn.com 202-585-6905	Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California	September 3, 2010

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.

   The Six Cities support most aspects of the Draft Final Proposal, as discussed below.

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

   See previous response.

Capacity Procurement Mechanism ("CPM")

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

   As discussed in their previous comments, the Six Cities support an open-ended term for the CPM and, therefore, do not recommend a specific sunset date for the CPM provisions. However, the ISO should conduct periodic assessments of the CPM. The Cities recommend that such assessments occur on an annual basis, at least initially. In particular, the first such assessment should occur no later than twelve months after the CPM becomes effective in order to provide an opportunity to consider the impact of policies and procedures for integration of renewable resources that are developed during that period. Depending upon how frequently the CPM is triggered, it may be appropriate to modify the period covered by subsequent assessments.

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

   The Cities agree that it is not necessary to specify a separate category for procuring capacity for planned transmission and generator outages. In general, the need to procure capacity to accommodate planned maintenance should be extremely rare. Resource Adequacy requirements incorporate reserve margins that should be sufficient to accommodate planned maintenance. In addition, the ISO has the authority to direct Scheduling Coordinators to reschedule planned maintenance if necessary. Given both the reserve margin included in the RA program and the ISO's ability to direct planned maintenance, any need to procure capacity to address planned maintenance should fall into the "significant event" category.

   However, with respect to procuring capacity under the CPM to address sustained, significant deficits in planned output of intermittent resources, the ISO should establish a separate procurement category and allocate the costs for capacity procured for that reason to the Scheduling Coordinator(s) for the intermittent resource or resources that caused the need for the CPM designation. Further, the ISO should clearly define the criteria for such procurement and provide reports on any CPM designations made under this new category of capacity procurement to provide transparency to the process.

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

   The Six Cities support the ISO's proposal to prorate the CPM payment to exclude payment for hours when the designated resource is on a planned outage.

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

   The Six Cities support the ISO's proposal to modify the selection criteria under Section 43.3 to allow the ISO to select eligible capacity from a resource that is not use-limited over capacity from a resource that is use-limited and to select for needed operational characteristics.

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

The Draft Final Proposal explains that providing a CPM designation for a resource that is needed for reliability and is at risk of retirement may be preferable to entering into a Reliability Must Run contract with the resource, because the CPM designation allows the ISO greater flexibility in calling on the resource. However, the Six Cities remain concerned that a CPM designation may impose significantly greater costs on ISO customers than an RMR designation, and that the increased operational flexibility associated with a CPM designation may not justify the cost differential, especially if, as in the example discussed in the Draft Final Proposal, the ISO's objective is to keep a resource "on hold" in anticipation of a need in a subsequent year.

The CPM rules should include provisions requiring that, prior to considering either a CPM or RMR designation for a resource "at risk of retirement," the ISO will alert the market to the perceived need sufficiently in advance to provide affected LSEs an opportunity to procure the capacity needed. If procurement by LSEs does not address the need identified by the ISO, then the ISO should conduct a cost/benefit review of the alternatives (*i.e.*, a CPM designation versus an RMR designation) on a resource-specific, case by case basis and select the designation method that will meet the ISO's reliability needs at the lowest possible cost.

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

The Six Cities support the development of the CPM payment based upon going-forward costs. There is no justification for basing CPM payments on Cost Of New Entry ("CONE"), because CPM capacity necessarily will constitute existing capacity at the time of procurement. CPM is not an appropriate mechanism to create incentives for the development of new capacity resources. Basing CPM payments on CONE will simply provide a windfall to existing capacity resources at the expense of customers.

Although the ISO's proposed method for developing the CPM payment is properly based upon going-forward costs, the level of the CPM payment proposed in the Draft Final Proposal appears unreasonably high, because it is based upon the going forward costs of a "new entrant/high priced unit," rather than the going forward costs of units that are most likely to be designated or dispatched by the ISO. The CPM payment should be based upon the going-forward fixed costs for the existing generating units most likely to be procured or dispatched by the ISO under CPM, plus a ten percent adder. The current level for the capacity payment under the ICPM is $41/kW-year. The ISO's proposed CPM payment level is $55/kW-year. Although the ICPM payment level is based upon data from several years ago, the ISO has not explained why the going-forward costs for existing generators have increased by 34%.

Exceptional Dispatch

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

   The Six Cities agree that the compensation for Exceptional Dispatch should be linked with the CPM payment.

2. Extending the existing bid mitigation.

   Energy bids for resources dispatched under Exceptional Dispatch should continue to be mitigated whenever such bids may reflect non-competitive conditions.

Other

1. Additional comments.

   The Cities have no additional comments at this time.