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-use-limited resources over use-limited resources.	X	

Proposal Element	Generally Support	Do not Support
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. **SEE COMMENT BELOW**		
7. Procure capacity in situations where the output of intermittent Resource Adequacy resources is significantly lower than their RA values. **SEE COMMENT BELOW**		
8. Procure capacity that is needed for reliability but is at risk of retirement. **SEE COMMENT BELOW**		
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. **SEE COMMENT BELOW**		
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	

<u>Other Comments</u>

1. If you would like to provide additional comments, please do so here.

<u>Re Item 6 above:</u>

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 and should occur rarely, if ever.

Re Item 7 above:

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.

Re Item 8 above:

The ISO states 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 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.

Re Item 9 above:

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 would 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 by the ISO 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%.