Attachment A

Stakeholder Process: Bid Caps for Start-up and Minimum Load bids

Summary of Submitted Comments

Stakeholders submitted three rounds of written comments to the CAISO on the following dates:

- Round One, 3/5/2007
- Round Two, 7/13/07
- Round Three, 814/07

Stakeholder comments are posted at:

http://www.caiso.com/docs/2004/11/19/2004111912470915456.html
http://www.caiso.com/17ba/17ba873e19350.html

Other stakeholder efforts include:

- Conference calls
  - June 1, 2007
- Meetings:
  - Market Initiatives Stakeholder Meeting, November 29, 2006
  - Market Surveillance Committee (MSC) meeting, February 13, 2007
  - Market Surveillance Committee (MSC) meeting, August 10, 2007, 2007
- Four whitepapers outlining and analyzing various options were developed by the Department of Market Monitoring.
  - *MRTU Market Power Mitigation: Options for Bid Caps for Start-Up and Minimum Load Costs*, Department of Market Monitoring, February 9, 2007 (http://www.caiso.com/1b87/1b87a5451d380.pdf)

- *MRTU Market Power Mitigation: Options for Bid Caps for Start-Up and Minimum Load Costs: Supplemental Addendum*, Department of Market Monitoring, May 15, 2007 (http://www.caiso.com/1be1/1be1b86023e30.pdf
- *MRTU Market Power Mitigation: Proposal for Bid Caps for Start-Up and Minimum Load Costs: Draft Revised Proposal*, Department of Market Monitoring, June 25, 2007 (http://www.caiso.com/1c08/1c08b3ec1a150.pdf)
- *MRTU Market Power Mitigation: Revised Proposal for Bid Caps for Start-Up and Minimum Load Costs*, Department of Market Monitoring, August 8, 2007 (http://www.caiso.com/1c34/1c34c8c15a770.pdf

Management Proposal	SCE	PG&E	CPUC	WPTF and Williams	Management Response
Bids Caps of 200% of costs for units in Local Capacity Areas (LCAs)	Support as "second best" alternative to dynamic approach used in PJM. Also suggest that if unit is frequently constrained on by the CAISO for reliability, the market-based bid should be replaced with a cost-based bid after a certain amount of reliability dispatches or uplift payments.	Support as "second best" alternative to dynamic approach used in PJM. Also recommend lower threshold of 150% for LCAs.*	Support at 200% threshold.	Generally oppose any caps, and suggested that only extremely high "damage control" cap would be appropriate. Also suggest that local market power issues should be mitigated through Resource Adequancy (RA) contracting process.	DMM believes that proposed threshold of 200% strikes a reasonable balance between need to mitigate potential market power in local areas, and need to provide sufficient "headroom" above costs to account for potential gas prices increases and meet FERC's goal of providing a bid-based option. DMM notes that RA contracting process only ensures that sufficient capacity to meet local reliability requirements capacity requirements, and does not directly mitigate market power. For example, although RA units have a "must-bid" requirement, there is currently no cap for startup and minimum load bids for RA and non-RA units. DMM will monitor the effectiveness of the 200% cap and will be prepared to file appropriate modifications with the FERC..
Bids Caps of 400% of costs for units in Local Capacity Areas (LCAs)	Same as above	Generally supportive, but note that 400% threshold may be excessive and exceeds the threshold in some other ISOs.	Did not comment o 400% threshold for non-LCA areas.	Generally oppose any caps, and suggested that only extremely high "damage control" cap would be appropriate.	DMM believes that the proposed 400% threshold is approximately comparable to the 300% threshold for non-constrained areas in NYISO and MISO due to differences in gas prices used in CAISO compared to these other ISOs. Specifically, the 400% threshold will be monthly gas futures prices at the beginning of the six month period, while the 300% threshold in other ISOs is based on actual daily spot market gas prices. Thus, during periods of higher spot market gas prices, the 400% threshold may actually be somewhat lower. DMM will monitor the effectiveness of the 400% cap and will be prepared to file appropriate modifications with the FERC..
Provision allowing generators to switch to cost-based option for remainder of six month period if gas prices increase so that costs ≥ six month bid	Support	Support	Did not comment	Did not comment, but raised concerns that a fixed cap of 200% to 300% could create significant gas price risk for generators.	DMM believes these provisions should effectively mitigate any concerns about gas price risk that may be created by a fixed cap of 200%, and actually provide additional risk mitigation benefits to generators who bid below the cap. At the same time, the provisions should avoid creating an incentive for generators to bid at higher levels to

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					mitigate gas price risk, and provide some additional protection against excessive market power by requiring that generator's switching from the bid-based option remain on the cost-based option for remainder for the six month period.
CAISO will examine more dynamic approach used in other ISOs as part of future MRTU software release	Strongly support	Strongly support	No comment	No comment	CAISO believes the proposed approach is appropriate and sufficient for the initial MRTU release, but will examine benefits and costs of a more dynamic approach in future a MRTU release.

* In addition, CDWR submitted comments in response to preliminary options under consideration indicating cap of 200% would be too high, and a cap of 150% or even lower would be more appropriate.