

Stakeholder Comments Template

Subject: Standard Capacity Product

Comments due Friday 11/21/08

The CAISO is requesting written comments on the *Standard Capacity Product Straw Proposal* that was discussed at the November 18, 2008 stakeholder meeting. Comments should be submitted to scpm@caiso.com.

Submitted by	Company	Date Submitted
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1. The SCP Tag.

The CAISO proposes that an SCP tag be used as an identifier of the capacity being submitted to the CAISO in compliance with an RA obligation. The tag will contain the resource ID, amount of NQC in MWs, and the duration of time the tag is valid.

The Bilateral Trading Group (BTG) submits that, ideally, a tagging and registration system should be put in place at the same time. However, the BTG completely agrees with the CAISO's suggestion that the registry can wait until a later time. In the interim, tags should be *optional* for the 2009 monthly RA compliance showings. There is no need to make the tags mandatory until such time as the registry is in place, as they appear to serve no real purpose until they become tracked in the registry. Once a registry becomes available, tags should become mandatory.

¹ The BTG is an *ad hoc* group of consumer organizations and retail and wholesale market participants that includes: the California Large Energy Consumers Association (CLECA), the California Manufacturers and Technology Association (CMTA), the City and County of San Francisco (CCSF), Shell Energy North America, (US) L.P. (formerly known as Coral Power, LLC), the Division of Ratepayer Advocates (DRA), the Energy Users Forum, The Utility Reform Network (TURN), and Direct Energy, LLC (formerly known as Strategic Energy, LLC).

2. Availability Targets and Performance Penalties.

At the November 18th CAISO stakeholder meetings, most parties supported assessing financial penalties for resources that fail to perform, rather than adjusting the net qualifying capacity (NQC). Stakeholders at the workshop stated that it would be difficult to be adjust the NQC on a continuing basis. A closely related question is what availability target should be established for resources, and whether this requirement should be specific for each resource.

The BTG supports the proposal by the majority of stakeholders to assess a financial penalty for resources that fail to meet their target availability level, rather than adjusting NQC. A financial penalty would be more transparent and easier to administer than an adjustment to NQC. Furthermore, a financial penalty provides an incentive to the supplier to resolve any technical problems quickly, whereas the prospective change to NQC does not. In addition, as discussed at the stakeholder meeting, generators planning to retire the next year would have no incentive to perform unless there was an “in-period” financial penalty.

The CAISO should consider applying the same target availability levels and penalty payments as currently exist in the ICPM, as proposed in the stakeholder meeting. Under the ICPM, capacity payments are adjusted by an “availability factor,” based on a cost of \$41/kW-yr. A penalty structure corresponding with differing levels of availability was adopted. The ICPM availability factors (schedule 6 of RCST on Availability) may also be appropriate for triggering when penalties are assessed for failing to meet the SCP target availability level. For example, the ICPM penalty formula is \$41/Kw-year (Availability factor – 1.00). Thus, for 90% availability, the Availability Factor would be set at 0.925; under this scenario, the Penalty would be \$41/Kw-year (0.925 – 1.00) = \$3.075/Kw-year.

The BTG also supports further discussions regarding penalties for poor performance during peak hours, and perhaps assessing stiffer penalties for performance during these

periods of high demand, as discussed at the stakeholder meeting. Given that RPS contracts are usually paid on a dollar per MWh basis, and usually do not have capacity payments, the CAISO would have to think about how penalties might apply in the case of renewable contracts. In addition, the CAISO will have to think about whether penalties could be applied to existing tolling contracts that do not have availability clauses, or whether they should only apply to new contracts. These issues require further discussions in the upcoming stakeholder meetings.

The BTG does not support any proposals to pay bonuses as incentives for performance. Such a proposal raises many potential problems. First, it could increase overall RA costs, which will ultimately be borne by ratepayers; second, it is not clear where the CAISO will get the additional funds for such bonuses; and finally, BTG believes that resources are already obligated to perform under their RA contracts, and will be compensated for such performance, which should be an adequate incentive for performance. Thus, it is not necessary and will be costly to pay resources a bonus payment for exceeding its target availability level, when this is already covered by the RA contract.

3. **Demand Response.**

The CAISO proposes that Demand Response (DR) resources be counted as capacity resource, rather than reducing the amount of a Load Serving Entity's (LSE) RA obligation by the DR resources, as is done now under the current RA program. The BTG cautions that any DR related proposals should be closely coordinated with other ongoing DR efforts and processes now underway and overseen by the CPUC and CAISO. The BTG tentatively supports continuing to reduce the RA obligation by the amount of DR resources. Under the CAISO's proposal, the overall RA obligation would increase, as the planning reserve margin would be added in on top of the forecasted load plus the DR "capacity." This would be a very big change from the current practice, and would add significant costs to ratepayers.

4. **Transition Period.**

The CAISO requested comments on the transition period for SCP implementation. During the transition, the BTG supports honoring all existing contracts. In particular, the DWR liquidated damages contracts should be honored until they are phased out in 2011 or 2012.

5. **Concluding Remarks.**

The BTG applauds the CAISO for taking up this matter in response to nearly unanimous stakeholder comments and support for development of a Standardized Resource Adequacy Capacity Product in the CAISO's Roadmap process. The BTG strongly supports that this matter stay on course for the February 2009 tariff filing, so that the SCP will be in place for the 2010 RA compliance year. The BTG looks forward to continued participation in this process.