California ISO
Shaping a Renewed Future

Attachment A

Stakeholder Process: Commitment Costs Refinements

Summary of Submitted Comments

Stakeholders submitted four rounds of written comments to the ISO on the following dates:

- Round One – 2/17/12
- Round Two – 3/14/12
- Round Three – 4/17/12
- Round Four – 5/7/12

Stakeholder comments are posted at:
http://www.caiso.com/informed/Pages/StakeholderProcesses/CommitmentCostsRefinement2012.aspx

Other stakeholder efforts include:

- Stakeholder conference call – February 8, 2012
- In-person stakeholder meeting – March 7, 2012
- Stakeholder conference call – April 11, 2012
- Stakeholder conference call – May 2, 2012

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
Argus Media	No comment.	Describes services they offer to supply an index for allowance costs.	No comment.	No comment.	No comment.	No comment.	Management appreciates the information and will consider Argus when implementation of greenhouse gas indices is underway.

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
California Public Utilities Commission	Supports.	Supports.	Supports. Recommends operational flow order cost recovery only for resources that have elected the proxy cost option. Concerned about potential collusion among bundled natural gas customers.	No comment.	Supports. Expresses concern over the details of the major maintenance adder development, and over the magnitude of major maintenance adders which could create perverse incentives.	Supports.	Management recommends that consideration of operational flow order penalties be extended to resources that have elected registered cost option because of the concurrent proposal to lower the cap on registered costs. Management asserts that the natural gas customers are best situated to determine the resource to which the operational flow order is attributable, and are responsible for reporting true and accurate information to the ISO. Management notes that Potomac Economics will implement its methodology for determining major maintenance adders consistently.

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
CalPeak	Opposes.	No comment.	No comment.	No comment.	No comment.	No comment.	Management has considered stakeholder feedback on the change to the registered cost cap and, in response, has changed the proposal from 125% to 150%.
Calpine Corporation	Supports maintaining the registered cost option Objects to the reduction of the cap down to 125 percent of the projected proxy cost value.	Supports. Recommends inclusion of administrative fees associated with the greenhouse gas program.	No comment.	No comment.	No comment.	Supports.	Management has considered stakeholder feedback on the change to the registered cost cap and, in response, has changed the proposal from 125% to 150%. Management does not recommend inclusion of administrative fees as they are not attributable to the marginal operating costs.

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
California Department of Water Resources – State Water Project	Supports.	Concerned that inclusion of greenhouse gas allowances in cost-based calculations undermines incentives to emit less greenhouse gas.	Recommends that resources rely on economic bids to mitigate for the risk of an operational flow order.	Expresses concern about double-counting GMC charges.	Supports.	If current rules are not accurate, then supports refinements and improvements.	Management asserts that accurate representation of resources' costs in cost-based calculations is fair and incentive-compatible.
GenOn Energy	Opposes. Resources that run infrequently are disproportionately exposed to fuel price risk. Recommends a phased-approach to lowering the registered cost cap once the proxy enhancements have been in place for 1 year.	Supports.	Supports. Recommends consideration of intra-day gas price exposure due to exceptional dispatch.	No comment.	No comment.	Supports. Recommends the ISO address MSG commitment costs well before the expanded obligation to use the MSG functionality is in place	Management has considered stakeholder feedback on the change to the registered cost cap and, in response, has changed the proposal from 125% to 150%.

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
La Paloma	Neither proxy nor registered cost methods provide enough compensation for the expense of being dispatched at ML by the ISO.	Wants consideration of administrative fee (5 to 9 cents per MWh). ISO should consider carrying cost of compliance credits, volatility, cap limits for reserve credits. ISO should allow generators to specify a higher carbon cost for resources not protected with pass-through provisions. Allow generators to provide day-ahead and real-time bids within the max Allowance Price Containment Reserve set by the State.	No comment.	Supports.	Supports. "…stress that the costs for long-term maintenance can be 100% or more of variable cost to run and produce MWh at min load."	No comment.	Management has considered stakeholder feedback on the change to the registered cost cap and, in response, has changed the proposal from 125% to 150%.
Northern California Power Agency	Supports.	Supports.	No comment.	Supports.	Supports.	No comment.	

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
NRG Energy	Opposes. Provides several examples of potential cost exposure that the originally proposed cost would not enable resources to capture in the registered cost option.	Supports.	Supports.	Supports.	Supports. Recommends more time to evaluate this element of the proposal.	No comment.	Management has considered stakeholder feedback on the change to the registered cost cap and, in response, has changed the proposal from 125% to 150%.

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
Pacific Gas & Electric	No comment.	Supports. Requests that the ISO define which greenhouse gas indices will be used.	No comment.	No comment.	Recommends a mechanism for more frequent update of major maintenance costs. Suggests the option of "pre-established alternative adders."	Opposes. Recommends that the same proxy cost (with refinements proposed in this proposal) be applied to MSG transitions.	Management recommends that the details of which greenhouse gas allowance indices to be used be part of the implementation effort. Management does not recommend more frequent updates as they are logistically difficult and may lead to adverse market outcomes. Management has determined that "pre-established" or default adders would not be sufficiently tailored to the variety of resources. Management recommends that MSG transition costs be evaluated when information from a wider set of resources using the MSG functionality can contribute to that discussion.

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
San Diego Gas & Electric	Supports.	Supports. Recommends that a rolling average of the spot market price for greenhouse gas allowances only if the market lacks liquidity.	Opposes. operational flow order penalty recovery can lead to unintended consequences.	No comment.	No comment.	Opposes. Recommends an immediate effort to develop a fixed adder to MSG transition costs.	Management does not recommend the use of a rolling average as it will dampen the effect of volatility. Management notes that the potential to recovery operational flow order penalties is consistent with incentives to follow ISO real-time dispatch. Management recommends that MSG transition costs be evaluated when information from a wider set of resources using the MSG functionality can contribute to that discussion.
Sempra US Gas & Electric	No comment.	Supports. Administrative fees associated with greenhouse gas program compliance should be considered.	No comment.	No comment.	No comment.	No comment.	Management does not recommend inclusion of administrative fees as they are not attributable to the marginal cost of production.

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
Six Cities	No comment.	No comment.	Supports. Recommends that natural gas balancing charges be eligible for cost recovery.	No comment.	No comment.	No comment.	The potential for additional natural gas balancing charges were part of the consideration that led to Management's recommendation to change to the registered cost cap to 150%.
Southern California Edison	Supports. Recommends a potentially lower registered cost cap, or elimination of the registered cost option. Recommends excluding major maintenance and GMC costs in the projected proxy value by which the registered cost cap it set.	Supports.	Supports.	Supports.	Supports.	Supports.	Management believes that the registered cost cap level of 150% of the enhanced proxy cost value is reasonable and will allow for units with costs that differ from the proxy cost calculation to accurately reflect those costs for consideration by the market software. Other mitigation measures are proposed to deal with incentives for providing excessive commitment cost values.

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
Wellhead Electric	Opposes. A reduction of 25% (not 75%) is appropriate due to fuel price risk faced in particular by peaking resources. The change to the registered cost cap should not be implemented until the proxy cost refinements are also implemented.	No comment.	Supports.	Supports.	Supports.	If the ISO "is not prepared to relay the mandatory MSG requirement, it must commit to expeditious follow-up on this issue to ensure MSGs are also to receive full cost recovery for following CAISO instructions."	Management has considered stakeholder feedback on the change to the registered cost cap and, in response, has changed the proposal from 125% to 150%. Management recommends the registered cost cap be changed concurrently with the proxy cost refinements. Management recommends that MSG transition costs be evaluated when information from a wider set of resources using the MSG functionality can contribute to that discussion.

Stakeholder	Change to registered cost cap for proxy start-up and minimum load costs	Inclusion of greenhouse gas allowance costs in cost-based calculations	Inclusion of operational flow order costs in cost-based calculations	Inclusion of grid management costs in cost-based calculations	Inclusion of a major maintenance adder in cost-based calculations	No changes to multi-stage generator transition cost rules	Management response
Western Power Trading Forum	Opposes. A cap of 125% does not adequately account for all fuel price risk, or risk associated with greenhouse gas allowance price volatility.	Supports. Administrative fee should be recovered.	No comment.	No comment.	No comment.	No comment.	Management has considered stakeholder feedback on the change to the registered cost cap and, in response, has changed the proposal from 125% to 150%. Management notes that the registered cost cap is not proposed to change until several months after the greenhouse gas program is implemented. Management does not recommend inclusion of administrative fees as they are not attributable to the marginal cost of production.