

Dynergy\* Comments on Standard Resource Adequacy Capacity Product  
Draft Final Proposal  
January 14, 2009

\* *Dynergy is, collectively, Dynergy Morro Bay, LLC, Dynergy Moss Landing, LLC, Dynergy Oakland, LLC, and Dynergy South Bay, LLC.*

Dynergy appreciates the opportunity to submit these comments.

Dynergy also appreciates the work the CAISO has done in facilitating this Standard Capacity Product (“SCP”) stakeholder process and in developing a straw proposal. Dynergy supports the concept of a SCP to facilitate trading and to promote a liquid secondary Resource Adequacy (“RA”) capacity market.

However, Dynergy is concerned about several aspects of the CAISO’s proposal, as discussed below.

**Timing and process.** As noted in previous comments, Dynergy prefers that the SCP stakeholder process remain active and the SCP be thoughtfully and carefully developed instead of rushed ahead to meet the wishes of some, but not all, stakeholders. Some aspects of the CAISO’s proposal, especially aspects that were first proposed in the most recent “final” proposal, warrant further stakeholder discussion. Dynergy urges the CAISO to carefully consider the merits of submitting for approval the SCP as it stands now against the merits of further refining the SCP through additional stakeholder discussion.

**Proposal to exempt certain resources from the SCP availability provisions.** Dynergy is concerned about the CAISO’s latest proposal to exempt hydro resources, intermittent resources, Qualifying Facilities and demand response resources from the SCP’s proposed availability provisions. This proposal is a step away from, not towards, a “standard” RA product. While the issue of determining Qualifying Capacity for intermittent resources and the issue of “double counting” intermittent resource outages are currently being considered in California Public Utilities Commission Docket R.08-01-025, simply exempting these and other types of resources from the SCP’s availability provisions unacceptably fragments, rather than standardizes, the RA product. Exempting these resources means that financial penalties will be applied to certain types of resources providing RA capacity but not to other types of resources providing *the exact same product*.

**Mismatch in the time frame for the development and applicability of the proposed availability standard.** The CAISO proposes to develop an annual availability standard, but apply the standard to each month rather than on an annual basis. (CAISO January 8, 2009 SCP at 14.) Dynergy remains concerned about applying an annual availability target on a month-by-month basis. As the figure on page 20 of the CAISO’s proposal shows, a resource may meet the annual availability target in some months, and fail to meet it in other months, even if its annual availability is exactly equal to the CAISO’s annual target availability. A resource therefore could be exposed to financial penalties on a monthly basis even if its annual availability was equal to, or even high than, the annual availability target. For example, assume that a resource’s availability in the first eleven months of the year exceeded the annual target by 2.4%. Under the CAISO’s

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proposal, because the additional availability was within the +/- 2.5% deadband, the resource would not be entitled to any bonus payments. Then assume that the unit was available only 55% in December, such that its annual availability was equal to 80%, which, for the purposes of this example, is assumed to be the annual availability target. Under the CAISO's proposal the unit would incur a significant financial penalty for the non-RA month of December but receive no bonus payments for the other eleven months, including for the five RA months May through September, in which the unit's availability exceeded the annual target.

In sum, Dynergy does not understand why the CAISO proposes to calculate the availability target on an annual basis but apply it on a monthly basis. Dynergy respectfully requests that the CAISO further explain the rationale for this proposal.

**“Cliff” for availability.** The CAISO's proposal (at 22) to create a “cliff” at 50% availability, below which a financial penalty will be applied as if the full amount of RA capacity was not available, is not fully explained and may create perverse incentives. First, the CAISO provides no rationale for why a unit that may be 49.9% available in a month is penalized as if it were not available at all. Second, such a penalty will not encourage a unit owner to return a unit to service in a month if they are going to achieve less than 50% availability – a perverse disincentive. Dynergy respectfully requests that the CAISO further explain the rationale for this proposal.

**Cap on bonus payments.** Dynergy understands the CAISO's proposal that bonus and penalty payments be, in aggregate, revenue neutral. Dynergy also understands the CAISO's perception that suppliers will receive a “windfall” in months in which there is relatively little over-performance relative to the amount of under-performance. Given that there is much less room for “upside” than “downside” in availability performance, especially given the proposed “cliff” at 50% availability, the proposed cap of three times the penalty rate may be too low to reflect the asymmetric reward/penalty potential. Applying the availability bonus and penalties on an annual basis rather than on a monthly basis may help moderate the possibility of so-called “windfall” payments.

**Transition Issues.** This new proposal needs more discussion. First, when the CAISO notes that grandfathered contracts must contain availability provisions that are “at least as robust” as those in the CAISO tariff, does that mean that the availability target in the contract to be grandfathered must be at least as high that proposed by the CAISO? Or that the penalty rate must be at least as high as that proposed by the CAISO? Or both? What if the availability target in the contract to be grandfathered applies on an annual rather than a monthly basis? The phrase “at least as robust” is key to the CAISO's proposal, but what would meet this standard is not fully explained. Second, the proposal to prevent grandfathered contracts from being tradable is not fully explained and does not seem to address the fundamental “problem” of contracts not meeting the CAISO's availability requirements.

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**Unit Substitution.** Dynegy supports the CAISO's proposal to allow non-RA units to be substituted for RA units on outage so as to mitigate the effects of the outages of non-RA units. While the principle of "pre-approval" seems reasonable (to prevent any real-time disputes about what units may substitute for other units), Dynegy would appreciate further discussion on what factors (e.g., location, operating characteristics, etc.) the CAISO will consider in determining what units may be substituted. Further, given that the obligation of a unit that provides RA is to offer into the CAISO's markets, not to meet any particular operating characteristic, limiting substitution based on operating characteristics – if that is the CAISO's intent – may not be reasonable.

**Credit requirements.** Dynegy supports the CAISO's position on credit requirements.

**AS MOO for RA less than PMin.** Dynegy reiterates its previous comments that in situations in which a unit has sold less than its PMin as RA, it should not be required to offer AS, particularly when the unit is not dispatchable at its PMin level.

**AS MOO for hydro units.** Dynegy does not support creating requirements in a "standard" capacity product that apply differently to different types of resources selling the same product. The CAISO's proposal to exempt such resources from having to offer AS if they self-schedule their daily energy assumes that such resources have no ability to shift energy production from day to day when such resources may be completely capable of doing so.