

Dynegy¹ appreciates the opportunity to submit these comments on the CAISO's November 11, 2008 Standard Capacity Product (SCP) Straw Proposal.

Availability

The CAISO's proposal to assess availability annually would be more appropriate if RA were an annual obligation. The availability assessment period must be the same as the RA compliance period. A unit that takes maintenance outside of the RA period should not be penalized for taking that maintenance. The CAISO's outage coordination function, not the RA program, is responsible for ensuring that scheduled maintenance does not compromise system reliability.

The RA counting rules already account for scheduled outages. As long as the RA compliance period is not an annual period, availability for the standard RA capacity product should be based on forced outage performance within the RA period.

If all capacity were paid the same price, establishing a fixed standard for availability would be appropriate. However, because all capacity is not being paid the same price, nor will it be paid the same price even under a centralized capacity market (because the overwhelming expectation is that the majority of capacity will be still bought and sold bilaterally), the CAISO's proposal to base availability on historic performance is not unreasonable. The availability of California's thermal generation fleet has increased substantially since 2003 to 2007 despite the fact that the RA program was not instituted until July 2006.² Other market factors, such as energy prices that reflect true system peak conditions, can serve to encourage availability apart from capacity compensation. Buyers and sellers can reflect availability differences through bilateral prices; such differences do not have to be captured by setting a uniform availability standard.

Dynegy agrees that availability should be assessed as a rolling average over a long time frame (multiple years) to avoid unduly severe impacts of a single year's reduction in availability.

The CAISO seeks input on how to assess availability for three types of resources: (1) imports; (2) demand response; and (3) liquidated damages contracts that do not specify a physical resource. Perhaps the CAISO should begin a discussion of how to assess availability from these resources with a discussion of what "availability" is. For imports, availability deals not only with the ability of resources in the sourcing balancing authority area to be re-dispatched, but also with the availability of interconnecting transmission. For demand response, availability deals with whether there is sufficient load to be curtailed to provide the RA amount and the expected curtailment (which can be based on a history of actual performance). Given that the CAISO has committed non-RA units because it cannot identify specific resources associated with LD contracts, the question must be asked as to whether an LD contract should even qualify as a SCP resource. If it

¹ Dynegy is, collectively, Dynegy Morro Bay, LLC; Dynegy Moss Landing, LLC; Dynegy Oakland, LLC; and Dynegy South Bay, LLC.

² See, e.g., Figure 18 of the CPUC's 2007 RA Report.

does, there must be more stakeholder discussion about how its availability will be assessed.

Ancillary Services Must-Offer Obligation

Dynergy does not oppose the CAISO's proposal to require that suppliers of RA capacity be required to offer Ancillary Services (AS) from the RA capacity to the lesser of (1) the extent the unit is certified to provide the particular AS; (2) the amount of contracted RA capacity. The details of how the ASMOO would be implemented, however, require further discussion.

As an example, consider a unit that has sold a quantity of RA capacity less than or equal to the unit's manual minimum load level (Pmin). Dynergy understands that the CAISO must commit that unit at Pmin in order to access the unit's RA capacity. But a steam turbine unit committed at manual minimum load is typically unable to respond to dispatch instructions to respond within 10 minutes and therefore unable to provide Ancillary Services capacity. Dynergy would not support the CAISO's use of exceptional dispatch to move such a unit to a level from which it could respond to 10-minute dispatch instructions and therefore be capable of providing AS.

The CAISO has not justified exempting hydro resources from offering AS. A standard capacity product is not "standard" if it places obligations on some kinds of resources, but not others, which are providing exactly the same product. While use-limited hydro resources have some characteristics (as do all use-limited resources) that makes managing an ASMOO more challenging, providing a blanket exemption from having to offer AS is not the direction the CAISO should be moving in developing a "standard" RA capacity product.

Financial Penalties vs. NQC Adjustments

Both approaches have shortcomings, but using financial penalties is the better approach.

The primary shortcoming of financial penalties is determining the associated capacity price. Even under a centralized capacity market, the vast majority of capacity will trade bilaterally at different prices. In a transparent market, the prices may and should be similar, but not equal. Basing the associated capacity penalty price on the clearing market price is the right approach – after a centralized market has been implemented. Until then, determining the appropriate penalty price will be a challenge. It's unclear how the ICPM price of \$41/kw-year relates to actual RA prices. Moreover, the ICPM price is a flat 12-month shape, while the RA compliance period is May-September. Additional discussion on the appropriate penalty price prior to the implementation of a centralized capacity market is needed.

The NQC adjustment approach is problematic. Given that the obligation to offer attaches to RA NQC, reductions in NQC would, in theory, reduce the amount of capacity available to the CAISO. But given that the CAISO has the right to exceptionally dispatch

non-RA capacity, reductions in NQC creates mismatches between the amount of capacity a supplier can sell and the amount of capacity the CAISO can dispatch. Non-RA capacity is also available to the CAISO, though the seller does not receive comparable compensation for that capacity.

NQC adjustments also impose additional risks for multi-year RA deals.

Tags and NQC

The CAISO has indicated it does not intend to revisit RA counting rules in this process. Assigning SCP tags based on NQC, however, runs the risk of leaving the CAISO without the resources it needs to operate the system reliably if the NQC values don't reflect operational reality. The RA program can't work as intended if NQC values are not right. If NQC issues are not dealt with in this CAISO process, the CAISO must ensure they are adequately dealt with in some other process.

Credit Requirements

Unless the CAISO will assess the potential for ALL possible penalties – including for underscheduling demand – in an equitable way among all its market participants, and makes appropriate and consistent adjustments to each market participant's estimated aggregate liability, the CAISO should not seek to impose credit requirements for expected availability penalties in the standard capacity product. Furthermore, credit requirements should be netted across the entire CAISO and not treated as stand-alone obligations.

Transition / Grandfathering

The only reasonable deadline for requiring market participants to move to the SCP is the scheduled implementation of a centralized capacity market. This deadline must be sufficiently far in advance to allow parties time to mutually restructure existing contracts. Until then, existing contracts must be grandfathered.

Dynergy thanks that CAISO for the opportunity to submit these comments.