

**COMMENTS OF OCCIDENTAL ENERGY VENTURES CORPORATION  
ON CAISO STANDARD CAPACITY PRODUCT DEVELOPMENT  
November 21, 2008**

Occidental Energy Ventures Corp (OEVC) appreciates the opportunity to comment on the California Independent System Operator (CAISO) Standard Capacity Product (SCP) Straw Proposal that was discussed at the November 18, 2008 stakeholder meeting.

**1. Existing Resource Adequacy (RA) Capacity Transactions Should Be Grandfathered**

Since 2006, LSEs and resource owners have engaged in Resource Adequacy (RA) capacity transactions using existing CPUC counting rules that comply with the CAISO Tariff. Confirmation Agreements associated with these existing RA transactions are based on specific product attributes, performance obligations and terms. Like the Existing Transmission Contracts, these agreements, which were negotiated in good faith and pre-date the CAISO's Standard Capacity Product proposal, should be allowed to stand without modification until the end of their terms.

**2. RA Resources Should Be Obligated to Provide Energy, Not Ancillary Services (A/S)**

Suppliers entered into agreements to sell RA capacity with the understanding that their sole obligation under MRTU would be to offer energy into the CAISO's Day-Ahead (DA) market. Must-offer obligations for A/S were never contemplated by the parties and are not included in the prices and terms of bilateral contracts to supply RA capacity. If the CAISO wishes to procure A/S capacity, it should do so in a separate and mutually exclusive market from RA capacity.

A/S products have varying degrees of optionality that are valued differently than RA capacity and its associated energy delivery obligation. Moreover, the operational impacts associated with offering ancillary services are significant, and they can also be very expensive. Parties that sell ancillary services assume exposure to a number of additional costs, including natural gas imbalance charges and the cost of buying and/or selling intra-day natural gas. Certain suppliers are also constrained with respect to the way they can operate. Combined Heat and Power (CHP) facilities, for example, typically produce electricity as a by-product associated with an industrial process or commercial application (heating or cooling), so their electric production cannot easily be increased or decreased without adversely affecting energy deliveries to the CHP host. Whether these facilities can even offer A/S depends on a variety of factors that cannot easily be incorporated into the CAISO's optimization. When and how CHP facilities offer A/S should be a voluntary decisions rather than an obligation that is somehow bundled with capacity that LSEs must buy to meet their RA capacity obligations.

The CAISO should also bear in mind that to the extent suppliers of RA capacity believe they are likely to suffer substantial economic and/or operational harm by being subject to an A/S must-offer obligation, they could have themselves decertified

to provide A/S or choose not to participate in future RA capacity markets. This outcome would exacerbate the very problem the CAISO's proposal seeks to avoid by reducing the pool of capacity and A/S resources. If the CAISO is concerned about limited availability of A/S capacity, then it should collaborate with CEC and the CPUC to create an environment in which suppliers can develop projects more quickly and without unnecessary bureaucratic obstacles so that they are competing with one another for the right to sell RA capacity and A/S. Imposing mandates and complex rules will tend to discourage new entry and decrease competition rather than increasing it. This should be avoided, especially in light of the CAISO's future needs for operationally flexible capacity and A/S to help integrate renewable resources. Policies that could cause flexible supply to decertify should be very carefully considered.

Finally, attaching an A/S offer obligation to the RA product creates a number of new complexities in an already complex market. For example, the CAISO and market participants will actually be faced with at least two "standard" capacity products: one that is certified to provide A/S and another that is not. The two "standard" products will have different prices and they will be subject to different rules for bidding, market power mitigation and settlement.

OEVC strongly recommends that the CAISO revise its proposal so that sellers of a standard capacity product are only obligated to offer energy.

### **3. SCP Performance Requirements and Assessment of Penalties**

The CAISO should prepare an analysis that shows how the performance requirements and the penalties that apply for existing RA transactions compare with the CAISO's SCP proposal. In general, the performance of existing RA contracts is assessed based on two metrics:

- Planned maintenance, as reported in the CAISO SLIC system
- Forced outages

Existing RA transactions include limits in the number of planned outage hours per month, with different more stringent monthly limits in effect during the defined summer period and somewhat less stringent monthly limits in effect during the winter periods. The notion of "forced-is-forced" provides for unlimited unscheduled outages that are deemed a forced outage as defined by NERC. As such, the only performance requirement within a supplier's control is the planning of maintenance and an obligation to be available to deliver energy when called upon by CAISO within defined operational protocols.

**4. System RA should be differentiated from Imported RA products**

RA capacity delivered from within the CAISO controlled grid should be viewed and valued differently than RA delivered from imports. Just as local RA capacity typically sells at a premium to system RA because it addresses RA requirements in a specific local area, System RA should sell at a premium to Imported RA because it can be delivered from within California and is not susceptible to transmission-related supply disruptions or constraints that affect facilities outside the CAISO controlled grid.

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