Stakeholder Comments Template

Subject: Updating Interim Capacity Procurement Mechanism And Exceptional Dispatch Pricing and Bid Mitigation

Submitted By	Company	Date Submitted
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<u>**Interim Capacity Procurement Mechanism**</u>

1. **Please provide your thoughts on the duration of the tariff provisions associated with a successor to the Interim Capacity Procurement Mechanism ("ICPM") and whether the tariff provisions should be permanent, i.e. there would not be a sunset date, or have some specified termination date. If you have a specific proposal, please provide it and indicate the reasons for your proposal.**

   PG&E supports adoption of a durable solution to the backstop procurement mechanism. A durable solution could involve developing an automatic mechanism for updating the capacity cost as well as the determination of new criteria to select resources that will receive ICPM designation.

   PG&E does NOT support the expansion of the CAISO's authority to procure capacity for a 12 month term under undefined and seemingly unlimited circumstances of "operational needs ability".[1] PG&E is supportive of the CAISO having a limited backstop role with respect to capacity procurement. However, under regulatory requirements, Load Serving Entities (LSEs) have primary responsibility for generation capacity procurement.

   The CAISO's paper of June 9th articulates the need for expansion of its procurement authority.

   > *"The ISO would utilize this type of procurement in instances where it identifies specific resource needs, based for example on a resource's operating characteristics or location, that may not be captured in the local capacity requirements for RA procurement of local capacity and are not associated with any identifiable potential significant event. The driver of this procurement would be operational need."*

[1] Per Section 43.2 of the Tariff, the CAISO already has the authority to procure ICPM capacity for 1 year, but only in the event that a LSE has not purchased all of its required local capacity. However, under this current proposal, the CAISO requests the authority to purchase backstop capacity for a 12 month term because of operational needs (even if the LSE has purchases 100% of its obligation).

A twelve-month CAISO procurement of capacity seems to stretch any reasonable notion of a backstop mechanism. Moreover, the experience of CAISO's infrequent capacity procurements over the past 14 months doesn't support this expansion. Finally, procurement of long-term capacity by the CAISO could result in the creation of a secondary RA market in which the CAISO would compete with the LSE to purchase RA capacity; we do not believe that the CAISO should take on the role of the LSE.

The CAISO should identify any long-term specific resource need through the LCR or other needs determination process. If the Local Regulatory Authority (LRA) accepts the needs determination, then procurement should be performed by the relevant LSE according to its procurement practices, as overseen by its LRA. It is not logical for the CAISO to procure long-term capacity in an ad hoc or uncoordinated fashion.

It’s important to note that the purpose of backstop procurement is to allow for mitigation of reliability issues that cannot be specifically addressed by RA capacity purchased by the LSE. If the current RA process is ineffective at procuring the capacity needed to maintain reliability, then the CAISO should remedy those problems through refinements to the current RA process administered by the LRA.

2. **Please provide your thoughts regarding the compensation that should be paid for capacity procured under ICPM and Exceptional Dispatch. If you have a specific proposal, please provide it and indicate the reasons for your proposal.**

The CPM price should continue to be based on the going-forward costs of gas-fired single and combined-cycle generating units. It is not appropriate to pay existing resources a price based on the cost of new entry.

In its January 18, 2008 Board Memo, the CAISO described the ICPM proposal as the culmination of a lengthy and rigorous stakeholder process which attempts to strike a reasonable balance between the divergent views of stakeholders. PG&E agrees the CAISO struck the appropriate balance of considerations in developing the current price of $41/kW-year.

Because the compensation issue was rigorously examined in the previous ICPM forum and because of the relative infrequent procurement of backstop capacity by the CAISO, PG&E supports maintaining the current going-forward cost framework. PG&E sees no need to change the $41/kW-year rate at this time but is open to hearing arguments for adjustments (both higher and lower prices).

Further, we do not see a need to change the current payment structure for Exceptional Dispatches.[2] In its paper of June 9th, the CAISO proposes to eliminate the Supplemental Revenue (or "relaxed mitigation") option for compensating Non-RA resources dispatched under exceptional dispatch.

[2] Resources without a capacity contract have a month-to-month choice between 1) accepting an ICPM designation and 2) earning hourly, bid-based compensation pursuant to the MRTU Tariff. Resources that choose Option 2, which is referred “Supplemental Revenue option, are paid similarly to unmitigated resources until it receives revenues up to the level of the ICPM payment.

"The ISO has not observed many instances of resources opting for the "relaxed mitigation" option rather than the incremental ICPM designations. Hence, for purposes of simplification, the ISO would propose removing that option from the tariff."

The CAISO offers no further details or support for this change other than noting it has not observed many instances of resources opting for this compensation method. PG&E questions that observation based on its own experience often opting for the Supplemental Revenue option. Because some market participants (including PG&E) find this option useful and because the CAISO has not provided implementation details or compelling reasons why the option should be eliminated, PG&E does not support the elimination of the Supplemental Revenue option.

3. **Please provide your thoughts on the ISO's suggestion to broaden ICPM procurement authority through creation of a new category that would allow the ISO to procure capacity for up to 12 months in order to make resources with operational characteristics that are needed to reliably operate the electric grid available to the ISO.**

   PG&E is not opposed to the CAISO modifying the criteria used to select resources that will receive ICPM designation, as long as the duration of the contract remains 30 days. We believe the inclusion of operational characteristics such as ramp rates and AS capability are appropriate criteria that should be used to select the resources that will provide backstop capacity.[3]

   However, stated earlier, PG&E does not support the expansion of the CAISO's authority to procure capacity for a 12 month term. See comments under PG&E's response to question 1 for more detail.

4. **Please provide your thoughts on the ISO's suggestion to modify the criteria that would be used for choosing a resource to procure under ICPM from among various eligible resources so that it recognizes characteristics such as dispatchability and other operational characteristics that enhance reliable operations.**

   As stated above, PG&E is not opposed to the CAISO modifying the criteria used to select resources that will receive ICPM designation, as long as the duration for the contract remains 30 days. We believe the inclusion of operational characteristics such as ramp rates and AS capability are appropriate criteria that should be used to select resource that will provide backstop capacity.

[3] The CAISO proposal does not give the CAISO the authority to purchase A/S. It does, however, give the CAISO the flexibility to consider the A/S capability of units when procuring backstop capacity. For example, if the CAISO needs capacity, and both units A and B can equally provide that capacity, then the CAISO can determine that unit A is better for A/S, and can select unit B for ICPM designation.

5. **Please provide your thoughts on the appropriate treatment of resources that may be procured through Exceptional Dispatch but then go out on Planned Outage during the period for which the resource has been procured. If you have a specific proposal, please provide it and indicate the reasons for your proposal.**

   PG&E agrees with the CAISO that it is inappropriate to pay an Exceptionally Dispatched resource for 30 day of capacity if it goes on a planned outage. The CAISO proposes two options: (a) to pay the resource for the minimum of 30-days or the number of days between the Exceptional Dispatch and the start of the scheduled outage, and (b) allow the resource to provide equivalent substitute capacity from another resource for the days when the Exceptional Dispatch resource is out of service. PG&E believes that the CAISO's both proposals are reasonable and recommends that this change be made to the existing policy of automatically providing a 30-day payment for resources that are not fully available for the entire month.

6. **If you would like to identify other issues that you believe should be discussed in this stakeholder initiative, please discuss those issues here.**

   No other issues at this time.

__Exceptional Dispatch__

7. **Please provide your thoughts on what fair compensation is for non-Resource Adequacy, Reliability Must-Run Contract or ICPM capacity that is Exceptionally Dispatched.**

   PG&E does not see a need to change the current payment structure for Exceptional Dispatches. PG&E believes that the ICPM price should continue to be based on the going forward costs of existing generation. It is not appropriate to pay existing resources that are Exceptionally Dispatched a price based on the cost of new entry. The CAISO has struck the appropriate balance of considerations in developing the current price of $41/kW-year. PG&E sees no need to change the rate at this time but is open to hearing arguments for adjustments (both higher and lower prices).

8. **Please provide your thoughts on whether energy bids for resources dispatched under Exceptional Dispatch should continue to be mitigated under certain circumstances. If you have a specific proposal, please provide it, and indicate the reasons for your proposal.**

   Currently, the CAISO mitigates Exceptional Dispatches in the two following situations:

   - A supplier is Exceptionally Dispatched to address a contingency on a non-competitive transmission path.

   - A supplier is Exceptionally Dispatched to address the Delta Dispatch. As a result of environmental restrictions on certain resources in the Bay Area, the CAISO must manually dispatch combinations of resources in a particular order during the same period of time every year (i.e. the operator of some units know with a high degree of certainty that it will be dispatched regularly during this period, creating the potential for a very high price bid for energy, thus exercising market power)

PG&E strongly supports appropriate mitigation rules that address the two circumstances listed above, because they deter uneconomic bidding during times when a resource is capable of or exercising market power.

9. **Please provide your thoughts on whether to change the categories of bids subject to mitigation under Exceptional Dispatch (Targeted, Limited and FERC Approved) and whether to extend the bid mitigation for the existing categories.**

   Given that Exceptional Dispatches are rarely subject to bid mitigation, PG&E sees no reason to alter the mitigation rules as describe above.

10. **If you would like to identify other issues that you believe should be discussed in this stakeholder initiative, please discuss those issues here.**

    No other issues at this time.

<u>Other</u>

11. **Please provide any additional comments regarding any other topic that your want to address.**

    No other comments at this time.