

**Comments from Wellhead Electric re Regulatory Must Take Generation  
and Commitment Costs Refinements**

**May 15, 2012**

Steve

I will be unable to attend the BOG meeting tomorrow but wanted to be sure that you, Board Chairman Foster and the other Board members were aware of our support on two of the items to be addressed at the Wednesday meeting.

Regarding agenda item #4, Regulatory Must Take Generation, Wellhead supports the proposed action and appreciates the time and effort the staff put into “getting it right”. The staff clearly understood that Combined Heat and Power projects can be designed and operated to provide significant flexibility to the CASIO so long as there are no unnecessary restrictions. Though some parties were arguing for such restrictions, the staff held firm and the result is that the CAISO Tariff will not be a barrier to the provision of flexible power services that can be provided by CHP projects. This is clearly a win-win result as California will get the greenhouse gas reduction benefits of CHP projects while also being able to access the flexibility CHP projects can provide the CAISO to manage the electric system. Job well done, thank you.

Regarding agenda item #5, Commitment Cost Refinements, Wellhead supports the proposed action which recognizes, and takes account of, actual costs incurred by generators in responding to CAISO dispatches. Some of the changes are new, like the addition of GHG compliance costs, while other changes are refinements that incorporate known costs. We also support the CAISO’s commitment to continue to review the Commitment Cost provisions to ensure generators are being properly compensated when dispatched by the CAISO. Two of the further refinements we hope will be addressed before this Tariff change goes into effect in 2013 are 1) including a factor to capture differences between inter-day and intra-day gas prices, and 2) addressing how dispatch decisions will account for Use Limited Resources with environmental restrictions on their starts and/or run hours.

Regarding the first item, there was significant effort put into consideration of the differences between monthly and daily prices, however we would like to see intra-day prices captured in the proxy cost, when applicable, as a way to reduce the need to use the registered cost option. Regarding the second item, the CAISO needs to be certain that applicable limitations are recognized in dispatch decisions so that generators are used optimally over the course of the year. Wellhead looks forward to working with the CAISO to ensure Commitment Costs and dispatch decisions take full account of all actual costs and limitations faced by generators. The proposed refinements are a significant improvement, we thank the staff for their efforts to date.

As noted, we are appreciative of the staff’s efforts on these two initiatives – they were clearly listening to the varying interests of stakeholders, took the time to understand the issues/concerns, and tailored at a well-founded, balanced proposal. We also want to thank you and the other CAISO executives that supported the staff in getting to these results. Please let me know if you have any questions.

*Doug Davie*

Wellhead Electric