



## 2. Summary of Written Comments Submitted on February 28, 2008<sup>1</sup>

<sup>1</sup> The written stakeholder comments presented here were submitted on the initial February 13, 2008 proposal. The CAISO subsequently created a revised proposal that was posted on March 4, 2008 and discussed with stakeholders on a conference call on March 7, 2008. The Board has now been provided with the final proposal (Attachment A).

A list of abbreviations is provided at the end of this document.

Feb 13, 2008 Proposal	Load Serving Entities, Energy Service Providers, End-Use Customers	Resource Owners	Management Response
<p>1. <u>Approach</u> – Generally retain RCST structure and use as base tariff language for TCPM filing, with changes made to RCST in six areas listed below in this template as items 2 through 7.</p>	<p><u>AReM</u>: Conditional Support. There is no time now for another protracted debate; that debate should (and will) take place at FERC. If parties attempt to extend debate, recommend that CAISO file a continued extension of RCST, as currently constituted, until MRTU.</p> <p><u>CDWR SWP</u>: Conditional Support. Since TCPM is for short duration and ICPM has been filed at FERC, continuation of RCST appears to be best option.</p> <p><u>CMUA</u>: Support. Concur it makes little sense to revisit controversial issues when TCPM is expected to be of short duration and CAISO has already filed its successor.</p> <p><u>NCPA</u>: Support. Considering short duration of time in which TCPM should be effective this element of proposal is appropriate.</p> <p><u>PG&amp;E</u>: Conditional Support. TCPM should reflect ICPM design in favor of expiring RCST. Do not endorse or support development of new backstop that differs substantially from either RCST or ICPM.</p> <p><u>SCE</u>: Support. Given time constraints and short-term nature of TCPM, believe that TCPM should be developed in a manner that reflects maximized administrative efficiency.</p> <p><u>SDG&amp;E</u>: Support.</p> <p><u>Six Cities</u>: Conditional Support. Generally agree that it does not make sense to devote substantial resources on new backstop. Support retention of basic RCST framework.</p>	<p><u>Dynegy</u>: Oppose. Believe that RCST structure was inappropriately retained beyond expiration date in RCST settlement..</p> <p><u>Reliant</u>: Conditional Support. Do not outright object to using RCST as base for amending tariff. Could better support approach if CAISO recognized that TCPM capacity is distinct capacity product and must be fairly compensated. Several features of TCPM would perpetuate price discrimination.</p>	<p>RCST was designed to work with existing market design and CAISO business systems are already configured to support RCST processes. Given limited time available to develop a tariff and that TCPM would be in effect for only a few months, use of RCST structure is reasonable.</p>

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<p><i>Note: CAISO has revised the initial proposal shown below to add a 10% adder to Option 1.</i></p> <p>2. <u>Capacity Price</u> -</p> <p><u>Option 1:</u> Update RCST price from \$73/kW-year minus Peak Energy Rents ("PER") to price of \$78/kW-year minus PER:</p> <p>1) Escalate RCST price for 2 years using National Consumer Price Index ("CPI"), (Actual CPI = 2.5% in 2006 and 4.1% in 2007). If stakeholders believe different escalator should be used, should provide it.</p> <p>2) Hypothetical proxy unit used for determining PER has heat rate of 10,500 BTU/kWh. Seek input on changes are appropriate.</p> <p>3) Seasonal shaping factor in RCST would be used as factor.</p> <p><u>Option 2:</u> Use price of \$41/kW-year with no deduction for PER as is done in ICPM:</p> <p>1) Use price of \$41/kW-year, which is minimum price proposed in ICPM.</p> <p>2) No PER deduction from price (and hence no need for determining a proxy unit).</p> <p>3) Level "1/12" shaping factor in ICPM used as shaping factor for TCPM.</p> <p>To extent stakeholders have alternative proposal, they are urged to present such alternatives.</p>	<p><u>AReM:</u> Slightly Prefer Option 2. Could live with Option 1, but only if quick agreement on pricing. Inadequate time for alternative proposals.</p> <p><u>CDWR SWP:</u> Conditional Support for Option 2. Adoption should be fair since price is based on going forward cost. Request hypothetical cost impact analysis of Options 1 and 2 based on 2007 bills.</p> <p><u>CMUA:</u> Conditionally Support Option 2. Trying to extend RCST pricing will result in intractable debates. ICPM pricing appears well calculated to allow recovery of going forward costs.</p> <p><u>NCPA:</u> Support Option 2. Considering short duration of TCPM, this element is appropriate. CONE pricing is not appropriate.</p> <p><u>PG&amp;E:</u> Support Option 2. Would avoid <i>issues</i>, debates and delays associated with Option 1 pricing aspects. Option 2 pricing received broad stakeholder support under ICPM.</p> <p><u>SCE:</u> Support Option 2. Consistent with ICPM proposal that was result of extensive stakeholder discussion.</p> <p><u>SDG&amp;E:</u> Supports Option 2. Favor compensation values that both proximate those used under current RCST, and assist in smooth transition to ICPM.</p> <p><u>Six Cities:</u> Support Option 2. Pricing should provide generators appropriate compensation for use of existing capacity. Oppose any suggestion that pricing should be based on CONE.</p>	<p><u>Dynegy:</u> Offers Alternative to Option 1. Use method in RCST, with price between fixed cost of existing generation and CONE, but use updated cost of SCE peaker projects for CONE, which results in \$117.10/kW-yr. Difficult to support rate that includes no recovery of capital costs.</p> <p><u>Reliant:</u> Oppose Options 1 and 2. Appropriate compensation is updated CONE. Recent CEC analysis supports CONE of \$145.54/kW-year. Oppose Option 2 as going forward costs are not relevant measure for services provided.</p>	<p>CAISO has weighed conflicting positions and attempted to balance widely divergent views. Management believes that RCST-type pricing of Option 1 is preferable, and it is reasonable to escalate the price to \$86/kW-yr. by updating the \$73 to 2008 levels and then applying a 10% adder. The \$86/kW-yr. price balance the interests of stakeholders and satisfies the just and reasonable standard as it is within range of fixed costs of existing units and cost of new entry.</p>

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<p>3. <u>Daily Capacity Payment</u> - Daily payment under RCST is 1/17 of the monthly target capacity price. CAISO proposes to increase payment factor to 1/8. CAISO sought input on appropriate level of daily capacity payment and reasons for the level.</p>	<p><u>AREM</u>: No comment.  <u>CDWR SWP</u>: Oppose: Daily MOO cost should not be increased without cost-based showing that rates are just and reasonable. Proposal lacks justification for increase. May support if justification provided.  <u>CMUA</u>: Conditionally Oppose. CAISO should explain its rationale. Would reconsider if showing is made as to why this proposed change is justified, and just and reasonable.  <u>NCPA</u>: Oppose. No quantitative information or analysis to justify this change has been provided.  <u>PG&amp;E</u>: Oppose. Has not been any evidence indicating that current 1/17 payment is insufficient; lacking a definitive description or substantiation of the problem. Increase appears arbitrary.  <u>SCE</u>: Opposes. No sufficient justification for the increase to 1/8. The basis for negotiated 1/17<sup>th</sup> value is still valid. It is not appropriate to use a randomly chosen value.  <u>SDG&amp;E</u>: Oppose. Generally supportive of an increased payment, but troubled that proposed increase is arbitrarily. Cannot endorse until number is supported with empirical data.  <u>Six Cities</u>: Oppose. CAISO has not provided sufficient justification for effectively doubling the payment.</p>	<p><u>Dynergy</u>: Oppose. Do not support extension of daily payment mechanism. Instead urges CAISO to designate TCPM for 2-month minimum term for any use of non-RA capacity. If insist on retaining daily payments, payment should be set at 1/3.  <u>Reliant</u>: Oppose. However, support direction of change but it fails to go far enough. Daily compensation should be replaced by full TCPM target capacity payment for a 3-month term.</p>	<p>There is no scientific way to determine what the single appropriate level of the daily capacity payment should be. CAISO has attempted to balance the positions of parties and ensure that generator owners are appropriately compensated for reliability services when denied a Must Offer Waiver Request. The total monthly revenues that a generator can earn from daily capacity payments will remain capped at the monthly capacity payment, thus protecting LSEs against overpayment.</p>

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<p><i>Note: CAISO initially proposed this element for TCPM, but no longer proposes this item. The initial proposal and stakeholder written comments are provided herein for the Board's information.</i></p> <p>4. <u>Designation of a Partial Unit</u> – CAISO proposes to change provision in RCST wherein CAISO can only procure a “whole” unit to allow the CAISO under the TCPM to procure a “partial unit.”</p>	<p><u>AREM</u>: Support. Concur that CAISO should only procure what is needed to meet the reliability needs.  <u>CDWR SWP</u>: Conditional Support: May be appropriate. Should describe compensation details.  <u>CMUA</u>: Support.  <u>NCPA</u>: Support. This will reduce risk of over procurement.  <u>PG&amp;E</u>: Support. May provide CAISO with added capabilities to avoid current limitations of “whole units.”  <u>SCE</u>: Supports.  <u>SDG&amp;E</u>: Support. Will avoid over- procurement in some situations, and may decrease overall costs.  <u>Six Cities</u>: Support. CAISO should not be forced to procure more capacity than required for system reliability.</p>	<p><u>Dynergy</u>: If CAISO adopts this, offer two necessary conditions: (1) minimum quantity that can be designated is unit's dispatchable (not manual) minimum load, and (2) designation never be less than operating level at which CAISO requires unit to operate at to maintain reliability.  <u>Reliant</u>: Oppose, unless “partial unit” is clarified to mean Eligible Capacity. Compensation should be based on Eligible Capacity of resource, not on arbitrarily designated slices of partial unit capacity. Partial unit designation proposal is discriminatory and unjust and unreasonable attempt to cut costs at expense of just and reasonable compensation..</p>	<p>After detailed internal review, Management is now NOT proposing this feature as it has concluded that such designations will not work under the current market design and the significant changes that would need to be made to market and settlement systems are not justifiable given extremely short-term nature of TCPM and the need to focus resources on MRTU.</p> <p>CAISO now proposes to use the existing RCST language, wherein CAISO must procure whole units.</p>

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<p>5. <u>Designation Process for Significant Event</u> – CAISO proposes to change designation process to use Significant Event definition in ICPM; add “three-step” designation process that is in the ICPM; and add a report to stakeholders when the initial 30-day designation has been extended (also in the ICPM).</p>	<p><u>AREM</u>: Conditional Support. See no need for this change for this very, short-term period. If other parties agree to change, can support it.  <u>CDWR SWP</u>: Support: Greater transparency and greater opportunity for market participants to resolve problems prior to CAISO non-market power purchases should be pursued.  <u>CMUA</u>: Conditional Support. While have continued concerns about Significant Event designations and increased CAISO flexibility, may be willing to accept this as part of an overall package.  <u>NCPA</u>: Conditional Support. Maintain concerns regarding loosely” defined nature of Significant Event procurement, but may be willing to accept this as part of an overall package.  <u>PG&amp;E</u>: Support. TCPM should reflect ICPM provisions where possible.  <u>SCE</u>: Conditional Support. Support the process, but want two revisions: Significant Event should be triggered only when a physical event impacts grid’s operating reliability criteria, and CAISO has itself offered justification that a 30-day extension is valid and that an automatic 60-day minimum contract extension is not warranted.  <u>SDG&amp;E</u>: Support.  <u>Six Cities</u>: Support. Remain concerned that Significant Event definition is too open-ended.</p>	<p><u>Dynergy</u>: Oppose. Do not support extension of daily payment mechanism, but instead urge CAISO to designate for 2-month minimum term for any CAISO use of non-RA capacity.  <u>Reliant</u>: Oppose. Unilateral discretion to declare a Significant Event as defined by CAISO is flawed and unduly discriminatory. Trigger should be when a unit is on call to CAISO pursuant to availability obligations. Either a single denial of a MOO waiver request or a Significant Event designation should trigger a full capacity payment.</p>	<p>Management believes adequate flexibility is necessary and prescriptive approach is not appropriate. Use of ICPM provisions will start the transition to the ICPM. CAISO does not support a prescriptive “hard trigger” for a Significant Event because it may force designations on a prospective basis even though the event that led to use of the unit has ended.</p>

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<p>6. <u>Minimum Term of a Significant Event</u> - CAISO proposes to change minimum term from three months in the RCST to one month consistent with that proposed under ICPM.</p>	<p><u>AREM</u>: Support. One-month term is necessary to minimize potential for over-procurement because no RA credit is provided to LSEs.  <u>CDWR SWP</u>: Support.  <u>CMUA</u>: Support. Approach allows CAISO to match designation with reason for requirement.  <u>NCPA</u>: Support. Proposed change will reduce risk of over procurement and will allow CAISO to procure capacity based on actual need.  <u>PG&amp;E</u>: Support: ICPM provides improved linkage between length of event and length of commitment. Specifically endorses this adoption to better align TCPM with ICPM.  <u>SCE</u>: Support.  <u>SDG&amp;E</u>: Support. Altering minimum term should mitigate over-procurement in certain situations and will help decrease overall costs of these designations.  <u>Six Cities</u>: Support. Support adoption of provisions that will allow CAISO to limit its backstop procurement to amounts actually needed and for duration of need, and opportunity to cure by LSEs.</p>	<p><u>Dynergy</u>: Oppose. Believe that a 2-month minimum term is appropriate. A unit that remains available for CAISO use incurs costs in months that CAISO does not need it. It is reasonable to pay some of those previously incurred costs when CAISO needs the unit later on.  <u>Reliant</u>: Oppose. Minimum term should be 3 months.</p>	<p>This change is necessary to work with the proposed “three-step” process for Significant Event designations where the initial designation period is for only 30 days. (The three-step process does provide that designation can be extended beyond initial 30 days if Significant Event lasts longer than 30 days. The designation would continue until Significant Event is resolved.).</p>

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<p>7. <u>Backstop for Local Resource Adequacy Deficiencies</u> – CAISO proposes to supplement RCST tariff language by adopting ICPM tariff language with respect to designations to address collective shortfalls, including cost allocation.</p>	<p><u>AREM</u>: Oppose. Do not see need to add this procurement option, particularly when time has already passed for determining a collective deficiency for 2008.  <u>CDWR SWP</u>: Support. Particularly support cost allocation based on contribution to coincident peak.  <u>CMUA</u>: Support.  <u>NCPA</u>: No Comment.  <u>PG&amp;E</u>: Support. While favor more targeted commitment periods that might be needed to address collective shortfalls (rather than an annual 12 month commitment), support staff proposal.  <u>SCE</u>: Conditionally Support. “Given chance to cure” must encompass an appropriate notice and adequate time for affected LSE to make necessary business decisions.  <u>SDG&amp;E</u>: No comment.  <u>Six Cities</u>: Conditional Support. If accompanied by provisions that will increase flexibility of CAISO procurement and allow LSEs opportunity to address CAISO needs through their own procurement.</p>	<p><u>Dynegy</u>: Support.  <u>Reliant</u>: Oppose adoption of ICPM tariff language.</p>	<p>Management believes that it is appropriate to update the backstop tariff provisions to reflect the most recent related provisions approved by FERC.</p> <p>LSEs will have opportunity to cure collective shortfall prior to any CAISO procurement. Cost allocation for local collective deficiency is based on coincident peak load.</p>

Note: The CAISO also invited stakeholders to list “Other Issues.” The comments that were submitted are provided below.

Stakeholder	Management Response
<p><u>A. AREM: RA Credit</u>. Current RCST language provides no RA credit to LSEs for procurement of any length. CAISO must provide RA credit to any LSE allocated TCPM costs for any TCPM procurement with term of more than 30 days. This will require changing cost allocation formula.</p> <p><u>B. AREM: Cost Allocation for System Deficiency</u>. Current cost allocation in RCST for deficiency in System RA resources found in annual evaluation could be read to charge the System deficiency to all LSEs. CAISO should insert the “deficient” after “each” in Section 43.8 to make tariff clear.</p> <p><u>C. CDWR SWP: Significant Event cost allocation</u>. Seek clarification if Significant Event cost allocation under TCPM will be based on coincident peak as applied in current RCST.</p> <p><u>D. PG&amp;E: Transition Into and Out of TCPM</u>. In event that resources are committed under RCST, CAISO proposal should include transition provisions. Similar provisions should be included to address possible transitions between TCPM and ICPM..</p> <p><u>E. PG&amp;E: Support for RA Credit with TCPM Designations</u>. To extent capacity is secured by CAISO through TCPM, CAISO should cooperate with CPUC and LRAs to allow RA credit. While PG&amp;E has suggested in past that such credits should be also provided for certain classes of Significant Events, at the minimum, CAISO TCPM proposal should adopt ICPM crediting provisions.</p> <p><u>F. Reliant: Effective date of TCPM</u>. Effective date of TCPM should be April 1, 2008 which coincides with FERC extension of RCST beyond December 31, 2007.</p> <p><u>G. SCE: Cost Allocation for Capacity to Address Deficiency</u>: Understand that when CAISO procures to address a local RA deficiency, associated costs shall be allocated to only those entities contributing to deficiency. Suggest that word ‘deficient’ be inserted in section 43.7.1:</p>	<p><u>A. and E</u>: CAISO proposes to include in the TCPM the tariff provisions that are in the ICPM that support allowing LSEs to “count” certain TCPM procurement in RA showings.</p> <p><u>B. and G</u>: Agree with these comments and will incorporate this in the TCPM tariff language.</p> <p><u>C</u>: TCPM will use the cost allocation language from the ICPM for Significant Event designations. This language is not based on coincident peak.</p> <p><u>D</u>: Transition provisions are not needed for TCPM as the tariff provisions will be designed to terminate at the start of MRTU. TCPM designations will not extend out into MRTU. (RCST designations must terminate upon implementation of TCPM.)</p> <p><u>E</u>: TCPM will be filed to be effective on June 1, 2008. In its December 20, 2007 order, FERC did not state that the TCPM must be implemented by March 31, 2008.</p>

## List of Acronyms

AReM	Alliance for Retail Energy Markets
CAISO	California Independent System Operator
CDWR SWP	California Department of Water Resources, State Water Project
CEC	California Energy Commission
CMUA	California Municipal Utilities Association
CONE	Cost of new entry
CPUC	California Public Utilities Commission
Dynegy	Dynegy, Inc.
FERC	Federal Energy Regulatory Commission
ICPM	Interim Capacity Procurement Mechanism
LRA	Local Regulatory Authority
LSE	Load Serving Entity
MRTU	Market Redesign and Technology Upgrade
NCPA	Northern California Power Agency
PER	Peak Energy Rent
PG&E	Pacific Gas and Electric Company
RA	Resource Adequacy
RCST	Reliability Capacity Services Tariff
Reliant	Reliant Energy, Inc.
RMR	Reliability Must-Run Agreement
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
Six Cities	Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California
TCPM	Transitional Capacity Procurement Mechanism