Stakeholder Comments Template

Subject: Capacity Procurement Mechanism and Compensation and Bid Mitigation for Exceptional Dispatch

Submitted by	Company	Date Submitted
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This template has been created to help stakeholders provide their written comments on the September 15, 2010 "Revised Draft Final Proposal for Capacity Procurement Mechanism and Compensation and Bid Mitigation for Exceptional Dispatch." Please submit comments in Microsoft Word to bmcallister@caiso.com no later than the close of business September 29, 2010.

This template is structured to assist the ISO in clearly communicating to the ISO Board of Governors your company's position on each of the elements of the Revised Draft Final Proposal. In particular, the ISO is interested in whether your company generally supports or does not support each element of the proposal and your reasons for those positions. Please provide your comments below.

Proposal Element	Generally Support	Do not Support
1. File CPM and Exceptional Dispatch tariff provisions with no sunset date.		Generally do not support, as it is becoming clear to CPUC staff that the market is changing too fast for any permanent backstop authority to remain valid for long. Details such as term, criteria, and price will likely change in upcoming years and would warrant revision to the tariff. Regular revision cycles may be warranted, and the CPUC advocates a 2-year sunset.
2. Provide that ICPM procurement with a term that extends beyond March 31, 2011 can be carried forward into CPM and paid at CPM rate after March 31 without doing a new CPM procurement.	Generally support. If the CAISO makes a CPM designation with a maximum length of 1 year, such that without tariff expiration the CPM designation would have lasted through 2011, that designation	

Proposal Element	Generally Support	Do not Support
	would last through 2011 without a new designation under the new tariff provisions.	
3. Pro-rate the compensation paid to CPM capacity that later goes out on planned outage after being procured under CPM.	Generally support.	
4. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish a preference for non-use-limited resources over use-limited resources.	Generally support, so long as clear criteria are established through the BPM update process which clearly identifies attributes and rules for selecting resources possessing the desired attributes. Please see response to Q6 for further discussion of the criteria.	
5. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish an ability to select for needed operational characteristics.	Generally support, so long as clear criteria are established through the BPM update process which clearly identifies attributes and rules for selecting resources possessing the desired attributes. Please see response to Q6 for further discussion of the criteria.	
6. Procure capacity to allow certain planned transmission or generation maintenance to occur.	CPUC staff generally supports the CAISO's use of existing significant event authority to designate CPM capacity to back up generators that go on planned maintenance. It is imperative however that the CAISO establish and post in the BPM very clear criteria the CAISO will use to determine when a planned maintenance outage will require CPM. It is clear to CPUC staff that a CPM designation will be required in a minority of the cases of generator planned maintenance, and CPUC staff does not expect increased designation of CPM capacity for this reason, even were the CPUC to eliminate the current scheduled outage replacement obligation from the RA program. Without publication of this clear set of criteria prior to filing the tariff at FERC, CPUC staff	

Proposal Element	Generally Support	Do not Support
	would not support this aspect of the CPM proposal.	
7. Procure capacity in situations where the output of intermittent Resource Adequacy resources is significantly lower than their RA values.		CPUC staff generally opposes this as it is unlikely that intermittent resources individually or in the aggregate will predictably perform significantly under their RA MW levels for the length of a CPM designation. Since a CPM designation is a month long, it is hard to determine when intermittent performance of resources already derated by the exceedence methodology in CPUC counting rules will systematically underperform for such a long (30 days consecutive) event. If a CPM designation could be for one day or even a week, this proposal may prove useful, but 30 days appears to be an unrealistically long period for intermittent resources to consistently underperform. Underperforming intermittent resources do not appear to be a major concern in the CAISO's latest Integration Renewables Resource Study (Aug. 31, 2010), which indicates that the existing fleet is capable of supporting a 20% renewable scenario. The solution to the integration of renewables and RA values is more comprehensively and appropriately addressed in the renewables integration stakeholder process, RA proceeding, planning reserve margin proceedings, and the Long Term Procurement proceeding.
8. Procure capacity that is needed for reliability but is at risk of retirement.		CPUC staff strongly opposes this proposal. CAISO staff raised significant concerns regarding this process of the system operator buying out of market capacity to alleviate fears of a lack of future year capacity during the conference call on 9-22-10.

Proposal Element	Generally Support	Do not Support
		As specified, CPUC staff has several problems with the CAISO's proposal. 1.) It appears to CPUC staff that the CAISO's proposal presents a very clear gaming opportunity for generators. 2.) The process as outlined allows generators to pit CAISO CPM against the bilateral RA market. 3.) Conflict with market outcomes in RA market. 4.) Difficulty in determining LCR capacity needs more than one year in advance of LCR study and LSE showings. 5.) CAISO difficulty in determining validity of generator financial statements. 6.) Possible energy price suppression due to excessive generation in most non-critical hours of year. More details regarding the CPUC's position are provided below.
9. Base compensation paid for CPM on "going-forward fixed costs" plus a 10% adder ($55/kW-year per CEC report), or higher price filed/approved at FERC.		CPUC staff is concerned. In previous comments, CPUC staff supported the payments based on current mechanisms. In the Final Proposal, the CAISO provided additional details and support for its pricing based on Going Forward Fixed costs, resulting in a minimum capacity payment of approximately $55/kW-year. CPUC staff acknowledges that this price is consistent with the California Energy Commission's recent study on Costs of Generation introduced at the August 23, 2010 workshop, but cautions that this figure is above the prices the CPUC observes in the current capacity market and therefore risks raising prices for capacity in the Commission's RA program if it is applied on an

Proposal Element	Generally Support	Do not Support
		annual basis. Current capacity prices appear to be in the same range as noted in *Cal. Indep. Syst. Operator Corp.,* 125 FERC ¶ 61,053 (2008).
10. Compensate Exceptional Dispatch at same rate as compensation paid under CPM, or supplemental revenues option.	Generally support	
11. Mitigate bids for Exceptional Dispatches: (1) to mitigate congestion on non-competitive paths, and (2) made under "Delta Dispatch" procedures.	Generally support	

Other Comments

1. If you would like to provide additional comments, please do so here.

   First, CPUC agrees with the CAISO's statement that "General Order 167, Operating Standards 22-25, would provide a basis for preventing utility-owned generation from retiring…" (Revised Final Draft, p. 27). However, as CPUC staff stated on the CAISO's September 22nd stakeholder call, the remainder of this sentence, "CPUC authority does not apply to non-utility owned generation," is inaccurate. The operation and maintenance standards in General Order 167 apply (with some limited exceptions) to *all* electric generating facilities located in California, inclusive non-utility generation.[1] Thus, CPUC staff requests that the CAISO correct its statement in the Revised Final Draft Proposal.

   Operating Standard 24 requires resources to maintain their units in a state of "readiness" unless the Commission (in consultation with the CAISO) has determined that they are not needed. The qualification in Operating Standard 24 simply recognizes that there must be just compensation provided to any resource for the "readiness" requirement. (Commission Decision D.06-06-069 upheld the legality of this requirement, and has not been appealed.) The consultation process of Operating Standard 24 allows the CAISO and the CPUC to work together to ensure that needed resources are adequately compensated and not retired prematurely. Accordingly, the CAISO's proposed CPM designation for units in danger of shutting down is unnecessary.

   Second, a gaming opportunity is presented by the ability of generators to predict their importance to the grid based on past history, their location in a Local Area or Subarea, or statements made in one of the various planning processes. Based on this information, a generator could potentially leverage the RA market

[1] *See* Cal. Pub. Utils. Code § 761.3(a); General Order 167, § 2.9 (Definition of "Generating Asset Owner.")

against its chances of receivable a CPM designation. For example, a generator could bid prices above its costs and the market price, and/or refuse to negotiate, knowing if its bid is not accepted it could then file with the CAISO an "intention" to end its PGA, effectively withholding from the RA market. If the cost structures of individual plants or units are not fully transparent, it becomes even more likely that a generator could file a notice of intent to end its PGA even when they are economically capable of operating in the energy market or under RA contracts offered to them by LSEs. In the present market, it is clear some generators are currently willing to enter in RA contracts well below the current $41/kw-yr price used in ICPM, let alone the $55/kw-yr proposed for CPM.

In addition, it is unclear how the CAISO will determine in advance whether the capacity will be needed in future years without relying on data from the year's Local Capacity Technical Analysis (LCR) study, which means important data may not be available at the time the CAISO makes the determination of whether to offer a CPM designation. The LCR study provides the basis for single-year Local RA obligations for the next compliance year; how will CAISO determine reliability requirements two years ahead given the existing year ahead study timeframe? Further, it is unclear how the CAISO would justify a year long CPM designation based on generator management assertions, in contrast to regular CAISO practices to test and verify other claims made by generators, such as PMax or deliverability. The process proposed is inadequate to support a legitimate determination regarding the financial status of the generator and invites further gaming. In sum, several questions are raised by this aspect of the proposal:

1.) How is the proposed use of CPM consistent with efficient market design principles, where generating resources deemed unnecessary are allowed to leave the market?
2.) Many generating resources, particularly older and less efficient ones in Local Areas, are typically part of a fleet of resources owned by affiliated companies. How will the CAISO determine whether the resource or the company needs to be economically subsidized?
3.) If the tariff allows the CAISO to rely on the assertions of a generation owner, how will the CAISO determine that these statements are not biased or contain inflated costs?

Lastly, as stated in previous CPUC comments[2], the CPUC staff is concerned that the CAISO's proposal to offer a 12-month contract for generation units that it believes are needed for reliability, but may shut down due to insufficient revenue, conflicts with state and federal law directing that California's long-term procurement and resource adequacy requirements are established by state laws and policies. It is unclear from the CAISO's proposal whether the CAISO intends to replace its Reliability Must-Run program with the proposed 12-month capacity product, or if the proposed product is to allow the CAISO to procure resources

[2] August 3rd CPUC comments to CAISO, linked here: http://www.caiso.com/27e7/27e783c858700.pdf

outside of, and in addition to, the state's existing, successful RA program at the CAISO's sole discretion.

The CPUC has established and operated a successful RA program that has resulted in drastic reductions in CAISO out-of-market procurement. The CPUC appreciates the significant technical and analytical input provided by the CAISO to implement the state-mandated long-term procurement and RA programs, but the CAISO has successfully been able to operate the grid with the generation capacity provided by the CPUC's RA program. Thus it is important to avoid conflicting with the current successful RA program.

More detail regarding the interaction of CPM with the existing CPUC RA program is provided in the CPUC's July 30th comments.