

Stakeholder Comments Template

Subject: Exceptional Dispatch – Issues Paper Release 1

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the topic of Exceptional Dispatch and specifically the issue paper related to this topic as posted on March 21, 2008 (at: <http://www.caiso.com/1f91/1f91cdbc12f0.pdf>) and discussed on the stakeholder conference call on March 28, 2008. Upon completion of this template please submit (in MS Word) to <mailto:jmclain@caiso.com>. Submissions are requested by close of business on April 4, 2008.

Please provide your comments to the areas below related to the proposals and aspects of the proposals that you do or do not support in the space below. There is also a general comments section for any other comments you would like to provide.

1. Option 1 – Daily Capacity Payment

The White Paper recognizes that there additional cost recovery issues impacted ED resources that are not covered by other capacity contract arrangements.

These resources do not receive a capacity payment and are likely not covering the full cost of operations.¹ The White Paper proposes 2 alternative options for an additional payment for uncontracted resources that are needed for ED purposes. The first option proposes making a daily capacity payment equal to 1/30th of the payment contained in the CAISO's ICPM proposal now before FERC. This approach draws the strong link between the ED product and the capacity products but fails to acknowledge that the ICPM proposal has not been adopted by the FERC.

Calpine believes that the need for ED of uncontracted capacity points to the likely inadequacy of the level of contracted capacity. Calpine is concerned that inadequate compensation for ED may incentivize the CAISO to become more reliant on ED as an alternative to approved capacity products. Therefore, Calpine opposes the proposal that ED resources be paid only an arbitrary daily capacity payment

¹ See the Annual Report of the DMM for a discussion of the failure of the spot revenue markets to deliver breakeven revenues for California generators

based on CAISO's proposed ICPM. Uncontracted capacity that is required for ED purposes serves as a capacity product and should be fully compensated at a rate equivalent to that of other capacity products.

Calpine rejects the White Paper's declaration that ED should not be used as a hard trigger that would make a resource eligible for capacity designation. Calpine believes that the best way to address concerns that the ISO will use ED to avoid appropriate capacity payments is to require that any resource that the ISO needs to dispatch under ED conditions should be entitled to opt to receive payment under the terms and conditions of the CAISO's approved capacity procurement mechanism including the local capacity requirement and should receive a capacity payment consistent with those mechanisms and that the resource should be paid this rate as though it had been designated as capacity for the maximum duration permitted by the CAISO tariff.

The intention of this approach is to ensure that resources that are found to be needed by the system in hindsight are fully compensated for being available to meet that need as if the need had been anticipated and to ensure that the system operator has a financial incentive to minimize ED and to make appropriate resource commitments .

2. Option 2 – Bid Adder

The second option proposed in the White Paper is an Energy Bid Adder of \$24/MWh. Calpine shares the concern expressed in the White Paper that such an adder has the potential to create conflicting incentives with respect to the capacity products, aspects of which still await FERC approval. As ED performs a very similar function to other capacity resources, Calpine believes that the payment for ED should be aligned to that for other capacity resources.

3. Other Supplemental Payment Options (Submit comments here)

4. Eligibility aspects (Submit comments here)

5. Mitigation aspects

The White Paper proposes to address perceived locational market power of generators subject to Exceptional Dispatch (ED) by imposing a price regulation or cap.

The need for price caps is predicated on the notion that generators will have market power in some situations where ED is required. Calpine believes that existing price mitigation in MRTU is sufficient to address this concern. Additional mitigation measures are not needed in the case of ED. Moreover, MRTU rules already ensure

that ED generators are not able to set the market price so the market price cannot be contaminated in any way by the price paid for ED resources.

Calpine opposes the notion that additional price regulation is needed beyond that already contained in the MRTU tariff to address ED.

6. General comments

Calpine is concerned that the white paper's Exceptional Dispatch proposal is an inappropriately timed attempt to establish another ad hoc mechanism for securing additional capacity products. The fact that it is proposed to be established before a proper capacity product has been defined and before the FERC has ruled on the appropriate interim capacity procurement process leads to it being necessarily ad hoc and likely inconsistent with the capacity mechanism that will ultimately be adopted. Moreover, it's unnecessary to adopt an ED policy at this time when the MRTU implementation date has still not been announced and is at best several months away.

Calpine believes that the CAISO should deal with all such capacity services issues within the context of a consistent framework that contains a standard definition of such capacity obligations and a fair and just compensation that is consistent across all capacity obligations including ED. Calpine's comments on the ED proposal are an attempt to provide a framework for developing an appropriate ED policy that will be consistent with the capacity procurement process and standard capacity product definition that will ultimately be adopted.

In summary, Calpine framework for addressing ED proposes that:

1. The CAISO not impose additional mitigation measures on resources that are required for ED purposes.
2. At the scheduling coordinator's discretion, the ED resource be entitled to receive a capacity payment for ED resources that is equivalent to the maximum amount payable to other capacity designated resources in exchange for taking on the obligations of a capacity resource for the relevant period.