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/1f91/1f91cdbd12f0.pdf) and discussed on the stakeholder conference call on March 28, 2008. Upon completion of this template please submit (in MS Word) to mailto:jmcclain@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

   It is Dynegy's position that the proposal for a daily "capacity" payment for Exceptional Dispatch (ED) is misguided. First, it strongly suggests that the CAISO does not expect, and may not even intend, to make any designations under ICPM. The proposal for a daily supplemental "capacity" payment seems intended to make up for the lack of a daily "capacity" payment under ICPM. Dynegy does not support procuring capacity service on a daily basis under RCST and TCPM and does not support adding a daily "capacity" payment as a band-aid for a flawed ICPM capacity backstop proposal.

   While Dynegy agrees that decremental ED should not trigger ICPM designation. However, any unit commitment of non-RA, non-RMR, non-ICPM capacity through ED or any ED of incremental energy beyond a unit's contracted capacity should trigger a designation under ICPM.

   While Dynegy does not support a daily "capacity" payment, it notes that the daily payment proposed for ED – 1/30th of the monthly ICPM payment – does not match the level of the daily payment either under RCST or proposed under TCPM.

2. Option 2 – Bid Adder

Inasmuch as Dynegy opposes a daily “capacity” payment for ED, instead of ED triggering an ICPM designation, it also opposes ED merely triggering a bid adder. This proposal further exacerbates the CAISO’s treatment of capacity as merely energy. Further, as noted above, the fact that the CAISO suggests in the March 21, 2008 white paper that a unit could be “frequently exceptionally dispatched and not offered an ICPM designation” (see Page 16), calls the prospects for ICPM designation into question even more deeply.

3. Other Supplemental Payment Options

See above.

4. Eligibility aspects

See above.

5. Mitigation aspects

See above.

6. General comments

Dynegy thanks the CAISO for the opportunity to submit these comments.

Dynegy is concerned about the CAISO’s increased focus on mitigating ED and its proposal to add side payments, ostensibly to blunt objections to the lack of fixed cost recovery in mitigated ED. Rather than making ED more palatable, these side payments only serve to point out the problems of the ICPM proposal and the unlikelihood of ICPM designation. Dynegy does not want the CAISO to expand payment options under ED; instead, it wants the CAISO to avoid using ED by ensuring (1) that the CAISO has the capacity resources it needs to operate the grid through the RA requirements, not through after-the-fact backstop procurement, and (2) that all constraints are reflected in its network model and resolved through, not outside, its markets. Focusing the discussion on the ED side payment is a distraction from what the CAISO’s goal should be, namely, increasing, rather than decreasing, the CAISO’s reliance on and confidence in its markets.

As with ICPM, as long as the CAISO has in mitigated ED an inexpensive means to address the deficiencies in the level of resources it needs to meet reliability, or deficiencies in its network model, or whatever deficiency gives rise to the purported need for ED, there will be little or no incentive to remedy those deficiencies. Market participants should question what they will be getting for the $190 million the CAISO is spending on MRTU, given the CAISO’s 11th hour efforts to expand the scope of ED (e.g., for use in procuring operating reserve in SP26) and to mitigate ED compensation. Market participants and the CAISO would all be better off if the CAISO were focusing its efforts on making sure that critical contingencies are reflected in the MRTU full network model and on enhancing the functionality of its markets rather than on developing yet one more way for the CAISO to take inexpensive service outside of its markets.

FILING SCHEDULE

Dynegy questions the CAISO's need to develop an ED mitigation proposal in a short time schedule and file that proposal on June 6, when the CAISO has not yet even announced a new implementation date for MRTU. Given that the issues around ED involve the after-the-fact settlement of ED, rather than modifications to SIBR or IFM to accommodate ED, the rush to a June 6 filing date seems unsupported.

USE OF ED TO PROCURE SP26 RESERVES

Dynegy strongly opposes the CAISO's assertion that it must use ED to procure 30-minute dispatchable reserves in SP26 to protect Path 26 against the loss of the Pacific DC Intertie.

Dynegy does not understand why the PDCI contingency – which the CAISO has known about since August 2005, well before the CAISO filed its MRTU design proposal in February 2006 – is not accounted for in the MRTU network model and market software. As inconceivable as it seems that the CAISO would have proposed in the February 2006 MRTU filing to use ED to procure reserves in SP26, it is even more distressing that the CAISO is now proposing to use ED to bypass its markets for that purpose at this late hour. It is clear that the CAISO has already developed the operational tools to be able to determine how much dispatchable reserve capacity is needed in SP26 to provide reliable operations following the loss of the PDCI, as described in slides 20-26 in the May 31, 2006 presentation entitled "Summer 2006 Operating Plan: Focusing on the CAISO South", which is available at http://www.caiso.com/1802/1802d7af3acf0.pdf. Given that the operational tools needed to address this contingency already exist and apparently are in use, there seems to be only one logical answer as to why the CAISO now proposes to use ED, instead of its approved regional ancillary services markets, to procure those reserves – to suppress ancillary service prices.

Further, given that the CPUC has implemented the "Path 26 Counting Constraint" in its Resource Adequacy program, there should be sufficient RA capacity in SP26 to address the PDCI contingency's effect on Path 26 without the need for ED. If the "Path 26 Counting Constraint" was properly implemented, ED should not be required to ensure sufficient reserves in SP26. Further, should the CAISO need to move units to their dispatchable operating levels to have sufficient reserves, it should be able to do so using those units' market bids – which must be submitted to the CAISO if the unit is an RA unit – rather than through ED.

In its proposal for mitigating ED, the CAISO has indicated it will NOT mitigate ED for (1) system-wide energy requirements and (2) relief of congestion on competitive transmission constraints. But by proposing to use ED to procure SP26 reserves to mitigate potential Path 26 overloads, the CAISO is violating its own proposal, as Path 26 is a *competitive* constraint.

As the CAISO notes, FERC has directed that the CAISO must use all resources available to it prior to dispatching units under its ED authority. The SP26 dispatchable reserve service that the CAISO seeks can and must be fully procured through the CAISO's ancillary services markets prior to resorting to ED to procure these reserves. To use ED for this purpose, and, further, to propose to mitigate ED used for this purpose, violates the principles and goals underlying the MRTU redesign and the proposed ED mitigation.