

## Dynegy Comments on Residual Unit Commitment December 19, 2008

Dynegy appreciates the opportunity to submit comments on the Residual Unit Commitment [RUC] process as invited by the CAISO's December 15, 2008 Market Notice.

The RUC process has been a key component of MRTU since the earliest designs of that project. The RUC process was approved by FERC more than two years ago. It provides the CAISO with an opportunity to commit or reserve capacity needed to meet reliability requirements when that capacity is not committed or reserved through the day-ahead market. By design, the CAISO's day-ahead market clears based on bid-in demand rather than on CAISO forecast of CAISO demand. If the day-ahead market cleared on CAISO forecast of CAISO demand, the RUC process would likely be unnecessary. The CAISO appropriately allocates RUC charges to demand that does not clear the day-ahead market. Market Participants can avoid those RUC charges by clearing their demand through the day-ahead market.

If California's RA program provided the CAISO with all the capacity the CAISO needed to reliably operate the grid, and if LSEs cleared their demand through the day-ahead market, there should be no RUC procurement. It is appropriate for the CAISO to commit and reserve RA capacity before non-RA capacity, but as long as California's RA program allows buyers to purchase part, but not all, of a unit's capacity as RA, the CAISO will have to deal with the tension between committing more units than may be efficient in order to honor the "RA first" principle and having to rely on non-RA capacity from partial RA units.

It is perfectly appropriate for non-RA capacity to set a locational RUC price. Apart from the CAISO's ancillary services markets, there is currently no transparent price signal for capacity. Further, given that the CAISO's AS procurement is not very granular, there is no transparent locational price signal for capacity. Any proposal to run RUC as an off-line process would eliminate this transparent price signal. Again, if parties want to minimize this price signal, they can procure additional RA capacity and clear all of their demand through the day-ahead market. Making the CAISO's reliability commitment process opaque may provide large buyers with a competitive advantage, but does not support the CAISO's mission of facilitating competitive markets.

In sum, Dynegy opposes any 11<sup>th</sup>-hour modification to the current RUC process, including the proposal to run RUC as an off-line, non-transparent process.

One long-term solution to the purported RUC "problem" – and, to be clear, Dynegy sees no problem with the current FERC-approved RUC process – would be to include the results of the RUC process in day-ahead prices. Reflecting the results of the reliability commitment process in the day-ahead market would discourage parties from shifting procurement from the day-ahead to the real-time market, which is what gives rise to the need for a post-DA reliability process in the first place. Further, a centralized capacity market that respects and appropriately prices local capacity requirements and procures the capacity necessary to support reliable operations also would facilitate capacity price transparency and reduce the need for RUC price signals, if reducing RUC price signals is the ultimate goal.

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