

## Stakeholder Comments Template

### Subject: Updating Interim Capacity Procurement Mechanism And Exceptional Dispatch Pricing and Bid Mitigation

Submitted By	Company	Date Submitted
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This template has been created to help stakeholders submit written comments on topics related to the June 9, 2010 “Updating Interim Capacity Procurement Mechanism and Exceptional Dispatch Pricing and Bid Mitigation” Issue Paper and June 16, 2010 stakeholder conference call. The Issue Paper and information regarding this stakeholder initiative can be found at <http://www.caiso.com/27ae/27ae96bd2e00.html>.

Please submit your comments on the items listed below in Microsoft Word to [bmcallister@caiso.com](mailto:bmcallister@caiso.com) no later than the close of business on June 23, 2010.

Your comments on any aspect of this stakeholder initiative are welcome. The comments received will assist the ISO with developing a straw proposal.

#### Interim Capacity Procurement Mechanism

1. Please provide your thoughts on the duration of the tariff provisions associated with a successor to the Interim Capacity Procurement Mechanism (“ICPM”) and whether the tariff provisions should be permanent, i.e. there would not be a sunset date, or have some specified termination date. If you have a specific proposal, please provide it and indicate the reasons for your proposal.

In the Issue Paper, the CAISO poses the question of whether or not the purpose of the capacity procurement mechanism (CPM) is to compensate existing capacity without an existing capacity contract, or to provide incentives for new generation. This is a critically important question that goes to the core purpose of the CPM which should inform the definition of many design details. The CAISO should outline the criteria for making this determination, as discussed further below.

In any event, regulatory uncertainty is undesirable for market participants – whether they are considering investment in new generation – or the ongoing capital investments that are required to maintain existing generation, some of which have

multi-year payback periods. While pursuit of a “permanent” mechanism may not be realistic, the CAISO should seek a durable framework with a long term horizon, and a reasonable target should be to have a CPM framework that is in place through 2020, when the unprecedented transition in California’s electric infrastructure associated with the 33% renewable penetration is targeted for completion. Given the magnitude of that transition, it would be inefficient to plan at the outset to revisit the CPM design until that transition is complete.

The CAISO should firmly dispel any notion that it would consider another interim mechanism with an arbitrary sunset date, or consider relying exclusively on the resource adequacy framework, over which the CAISO has significantly deferred to the CPUC, or on Reliability Must Run contracts, on which the CAISO has successfully reduced reliance in recent years.

2. Please provide your thoughts regarding the compensation that should be paid for capacity procured under ICPM and Exceptional Dispatch. If you have a specific proposal, please provide it and indicate the reasons for your proposal.

No decision on pricing can be made without consideration of the purpose of the CPM (incenting new vs. compensating existing generation) and the duration of the pricing commitment (one month vs. twelve months vs. multi-year commitment). If something less than the cost of new entry will provide an incentive for existing, environmentally compliant generation that provides essential reliability services to continue to operate, and thereby defer the need for new generation, then that capacity should have the opportunity to earn a price up to the cost of new entry net of the market’s expectation of energy and ancillary service margins as reflected in prices bid in a competitive market.

3. Please provide your thoughts on the ISO’s suggestion to broaden ICPM procurement authority through creation of a new category that would allow the ISO to procure capacity for up to 12 months in order to make resources with operational characteristics that are needed to reliably operate the electric grid available to the ISO.

As compared to a one-month or 3-month commitment period, a 12-month duration provides more certainty regarding capacity revenues for resources that do not have resource adequacy commitments on all unencumbered capacity. The Issue Paper suggests that such a feature might make available certain incremental resources with operational characteristics needed for reliable operation of the system. However, no incremental investment in new capacity is likely to be made in expectation of the possible award of 12-month CPM, and the CAISO should be clear on what resources it expects to be made available through this design feature.

As discussed in more detail below, it seems essential that the CAISO come to grips with whether or not the CPM will be expected to incent new generation – and to then

pursue the policy measures that logically follow from the CAISO's obligation to reliably operate the CAISO balancing authority area.

Moreover, a generator's avoidable costs do not typically incur over short (i.e. monthly) time periods. A decision to mothball a unit or to bring a mothballed unit back into service may take a year or more to implement. As noted above, large investments with multi-year payback periods may be required to assure that a unit can continue to provide reliability services. These factors should be explicitly considered in designing the CPM.

4. Please provide your thoughts on the ISO's suggestion to modify the criteria that would be used for choosing a resource to procure under ICPM from among various eligible resources so that it recognizes characteristics such as dispatchability and other operational characteristics that enhance reliable operations.

While the idea of selecting those resources with operating characteristics that best enhance reliable operations sounds reasonable, this criterion may be difficult to implement objectively, as different characteristics may be more valuable in different circumstances. For example, location, start time, ramp rate and inertia might vary significantly from among eligible resources that reasonably fulfill the primary procurement purpose – but the value of such features might differ significantly from among those same resources depending on what operating conditions arise over the duration of the commitment period.

5. Please provide your thoughts on the appropriate treatment of resources that may be procured through Exceptional Dispatch but then go out on Planned Outage during the period for which the resource has been procured. If you have a specific proposal, please provide it and indicate the reasons for your proposal.

Under Section 9.3.7 of the CAISO Tariff, the CAISO Outage Coordination Office may at any time request a change to an approved outage if the change is "required to secure the efficient use and reliable operation of the CAISO Controlled Grid." The CAISO might first consider requesting that the outage be rescheduled as the tariff currently allows.

6. If you would like to identify other issues that you believe should be discussed in this stakeholder initiative, please discuss those issues here.

The CAISO outlines several conditions that could lead to the use of the CPM, but the straw proposal should be very clear about the purpose of the CPM – is it to simply compensate existing capacity, or is it to incent new generation?

In considering the CPM's core purpose, it might be useful to analyze the root causes of the resource deficiencies that lead to the use of the backstop procurement mechanism, and how those deficiencies can be cured. Resource deficiencies may

result from the inadequacy of the Resource Adequacy requirements in meeting local and system reliability, or they may result from non-compliance by Load Serving Entities with those criteria. Regardless of the root cause, if the CAISO concludes that the purpose of the CPM is not to incent new investment (an implicit conclusion if the CAISO determines that the maximum commitment period is 12 months or less), then only uncontracted capacity from existing generation can be expected to be available to cure any deficiency. Whether or not RA requirements are sufficient, or LSEs have failed to comply with the existing requirements – if there are insufficient existing resources to fill the gap, then the CAISO is left with an unmet need that may mean applicable reliability criteria are left unsatisfied.

The CAISO should thoroughly assess the root causes of potential deficiencies; the risk that such deficiencies cannot be cured by existing generation; and whether any changes in upstream policies regarding RA rules, planning reserve margin, counting rules or local capacity determinations are necessary to assure that such risk is reasonable. While FERC may not directly regulate generation facilities and the CPUC has authority over what capacity is built or retired, the CAISO has final responsibility for assuring reliable operations. Ultimately, the CAISO may need to consider bold policies in the CPM design to specify terms for pricing backstop capacity or for failing to acquire enough capacity over a longer horizon than 12 months to provide incentives for new capacity, and continued operation of needed existing capacity.

### **Exceptional Dispatch**

7. Please provide your thoughts on what fair compensation is for non-Resource Adequacy, Reliability Must-Run Contract or ICPM capacity that is Exceptionally Dispatched.

Resources should be paid as-bid unless they have the unilateral ability to influence market prices. Under Section 39.10 of the CAISO Tariff, the only Exceptional Dispatches that are subject to bid mitigation are those related to the reliability requirements of non-competitive paths, and Delta Dispatch. In approving the MRTU competitive path assessment, FERC agreed with market participants that the three-pivotal supplier index used in the competitive path assessment might be overly stringent.

Given that the frequency and conditions under which the CAISO deems a path non-competitive directly influences mitigation of bids by units that are Exceptionally Dispatched, the CAISO's competitive path assessment process is necessarily within the scope of the review of Exceptional Dispatch compensation. Therefore, the CAISO should plan to follow-up on the May 28, 2010 report on the performance of the local market power mitigation (LMPM) process by the Market Surveillance Committee, identify any empirical evidence of the exercise of market power, complete any required analysis of alternatives such as a residual demand curve, and expedite revisions to the LMPM to use better information to eliminate unnecessary

mitigation when the successor rules for Exceptional Dispatch become effective on April 1, 2011.

8. Please provide your thoughts on whether energy bids for resources dispatched under Exceptional Dispatch should continue to be mitigated under certain circumstances. If you have a specific proposal, please provide it, and indicate the reasons for your proposal.

No further comment at this time.

9. Please provide your thoughts on whether to change the categories of bids subject to mitigation under Exceptional Dispatch (Targeted, Limited and FERC Approved) and whether to extend the bid mitigation for the existing categories.

No further comment at this time.

10. If you would like to identify other issues that you believe should be discussed in this stakeholder initiative, please discuss those issues here.

The CAISO should evaluate how to provide more timely information regarding the frequency and amount of Exceptionally Dispatched energy.

**Other**

11. Please provide any additional comments regarding any other topic that you want to address.

No further comment at this time.