

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.

Summary

RRI Energy appreciates the opportunity to provide these comments (the fourth set of comments that RRI has submitted in this stakeholder process) on the CAISO’s Revised Draft Final Proposal,

As RRI has noted on several occasions, the CAISO should define this proposal for backstop capacity procurement in a comprehensive way, recognizing the essential role of the CPM as one design feature in a comprehensive framework to assure long term resource adequacy. In our September 3, 2010 comments, RRI noted that the CAISO had another independent stakeholder process to establish a replacement obligation on suppliers for scheduled outages on resource adequacy capacity. We suggested that the CAISO recognize the relationship between these initiatives in pursuit of an overall framework that assures long term resource adequacy. The CAISO has since suspended the stakeholder process to establish such a replacement obligation, and although no date for resumption of that process has been announced, it seems likely that it will follow the completion of the CPM process. Rather than establish a piecemeal design, the CAISO should instead pursue a comprehensive design for long term resource adequacy.

The CAISO’s view of the role of the backstop capacity procurement mechanism has changed significantly since the CPUC determined that no multi-year forward capacity

market would be established. The CAISO had previously emphasized the role of the backstop capacity procurement mechanism as a pricing benchmark for forward contracting,¹ but it now appears that the CAISO is content to leave the responsibility for assuring long term resource adequacy to the CPUC.

RRI still believes that one useful step in supporting its proposed CPM design would be for the CAISO to provide an element by element comparison with the resource adequacy framework employed by other ISO/RTOs – e.g., by considering the reliability metric (e.g., LOLE), installed or unforced capacity requirement, counting rules for capacity, treatment of scheduled outages, backstop capacity procurement, and the cost/penalties for deficiencies. Assurance of long term resource adequacy requires such an analysis.

Proposal Element	Generally Support	Do not Support
1. File CPM and Exceptional Dispatch tariff provisions with no sunset date.	The CAISO has described the backstop capacity procurement mechanism as a permanent feature. While periodic updates to pricing terms may be necessary, an arbitrary sunset would create regulatory uncertainty which could further inhibit investment.	The proposed design makes clear that the CPM will have no role in providing incentives for forward contracting or investment, so any advantages of regulatory certainty provided by its proposed permanent status are moot.
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.	No comment.	No comment.
3. Pro-rate the compensation paid to CPM capacity that later goes out on planned outage after being procured under CPM.		None of the additional considerations raised by RRI in prior comments have been addressed. This feature should not be evaluated in isolation, but as RRI and others have suggested, the CAISO should benchmark its proposal against the comprehensive resource adequacy frameworks that are in place in other ISO/RTOs.
4. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to	No objection in principle. See response to Proposal Element 5.	

¹ For example, in its March 14, 2008 comments filed in R.05-12-013, the CAISO stated that “in the absence of a CCM that provides an efficient capacity price signal based on the cost of new entry in local areas where there is a deficiency and additional infrastructure is needed, a more permanent backstop mechanism would need to take on that role and provide benchmark prices for negotiating forward bilateral RA contracts.”

Proposal Element	Generally Support	Do not Support
establish a preference for non-use-limited resources over use-limited resources.		
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.	No objection in principle. However, As noted in RRI's prior comments, 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.	
6. Procure capacity to allow certain planned transmission or generation maintenance to occur.	No comment at this time.	No comment at this time.
7. Procure capacity in situations where the output of intermittent Resource Adequacy resources is significantly lower than their RA values.	No comment at this time.	No comment at this time.
8. Procure capacity that is needed for reliability but is at risk of retirement.	The CAISO is faced with assuring availability of existing generation that is needed for reliable system and local operations without the best tool to provide that assurance – a systematic and transparent multi-year forward centralized capacity market. However, given the risks of early retirement of key units well ahead of OTC deadlines, combined with the enormous requirement for voltage support, inertia, ramping, balancing and Regulation services that the CAISO will require, the	Many questions are left unanswered. Is the CAISO proposing to modify all PGAs to extend the 90 day notice to 180 days? Is participation voluntary? How would the CAISO recognize that the timing of decisions regarding mothballing or retirement may not be affected by a commitment that extends only 12 months?

Proposal Element	Generally Support	Do not Support
	proposed use of CPM to retain existing capacity may be necessary.	
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.		By adopting this design principle, the CAISO is completely deferring to the CPUC jurisdictional RA program for the essential purpose of incenting investment in generation. In addition, the CAISO’s proposal to pro-rate payments for scheduled maintenance, and practice of exceptionally dispatching resources without resource adequacy contracts to minimum load only, thereby entitling those resources to a CPM payment that may be 10% or less than the assumed going forward costs, will perpetuate the existing deficiency of market revenues to the existing fleet.
10. Compensate Exceptional Dispatch at same rate as compensation paid under CPM, or supplemental revenues option.		As noted above, the CAISO’s ability to acquire the full capacity of a non-RA unit by committing it to minimum load through Exceptional Dispatch and paying a fraction of going forward costs is a serious design flaw.
11. Mitigate bids for Exceptional Dispatches: (1) to mitigate congestion on non-competitive paths, and (2) made under “Delta Dispatch” procedures.		As RRI and others have commented previously, the CAISO should expedite its planned revisions to the LMPM to improve its competitive path assessment process to reduce unnecessary mitigation. The improved CPM process should be in place when the successor rules for Exceptional Dispatch become effective on April 1, 2011.

Other Comments

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