

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 of SCE’s overall comment:

SCE appreciates the effort put forth by the CAISO in developing the Revised Draft Final Capacity Procurement Mechanism (“CPM”) Proposal. SCE generally supports the CAISO’s proposal with one key exception. SCE continues to have strong concerns regarding the potential implications associated with the CAISO’s request for authority to use CPM to procure capacity from resources at risk of retirement. To be clear, SCE does not object to the CAISO considering, through a separate stakeholder process in coordination with applicable regulatory agencies, possible CAISO Tariff-based mechanisms to ensure sufficient generation capacity is procured to meet longer-term reliability needs. However, the issues associated with such an effort – unit retirement, once-through cooling policy implementation, renewable integration, and cost allocation – warrant a broader consideration than just an extension of CPM. SCE urges the CAISO to withdraw its proposal to add an additional trigger for CPM to procure capacity at risk of retirement and instead initiate a stakeholder effort to discuss these broader issues.

SCE notes that the ISO’s Revised Draft Final Proposal, while including additional details supporting some of the individual proposals, did not change any of the proposals as contained within the Draft Final Proposal. As such, our overall comments remain essentially the same as were filed Sep. 3rd. In order to focus the CAISO’s attention on SCE’s concerns, SCE simply uses a check (✓) within the matrix to indicate which of the

CAISO's positions we Generally Support. SCE then reiterates our previously provided detailed comments on issues we Do Not Support.

Proposal Element	Generally Support	Do not Support
1. File CPM and Exceptional Dispatch tariff provisions with no sunset date..	✓ (See Sept. 3 rd comments on CPM #3)	
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.	✓	
3. Pro-rate the compensation paid to CPM capacity that later goes out on planned outage after being procured under CPM.	✓ (See Sept. 3 rd comments on CPM #5)	
4. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish a preference for non-use-limited resources over use-limited resources.	✓ (See Sept. 3 rd comments on CPM #6.1)	
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.		✓ SCE does not support. <i>Please see additional comments below.</i>
6. Procure capacity to allow certain planned transmission or generation maintenance to occur.	✓ (See Sept. 3 rd comments on CPM #4.1)	
7. Procure capacity in situations where the output of intermittent Resource Adequacy resources is significantly lower than their RA values.		✓ SCE does not support. <i>Please see additional comments below.</i>
8. Procure capacity that is needed for reliability but is at risk of retirement.		✓ SCE does not support expanding CAISO authority to address risk of retirement in this forum. <i>Please see additional comments below.</i>
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.	✓ (See Sept. 3 rd comments on CPM #8)	

Proposal Element	Generally Support	Do not Support
10. Compensate Exceptional Dispatch at same rate as compensation paid under CPM, or supplemental revenues option.	<p style="text-align: center;">✓ (See Sept. 3rd comments on ED #1)</p>	
11. Mitigate bids for Exceptional Dispatches: (1) to mitigate congestion on non-competitive paths, and (2) made under "Delta Dispatch" procedures.	<p style="text-align: center;">✓ (See Sept. 3rd comments on ED #2)</p>	

Other Comments

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

The following comments are numbered to correspond with the respective proposed element listed in the above matrix.

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.

SCE does not support the CAISO's proposal to add selection criteria regarding operational characteristics. Rather, if/when the CAISO's evaluations indicate that specific operational characteristics are needed, additional discussions will be required on how and when these operational attributes are procured, particularly on a forward basis; whether they will be centrally procured, if they will be bilaterally procured and who will have the responsibility to secure and pay for these resources. For example, if any ultimate solution impacts the current RA process, that must be coordinated with the CPUC. Discussions on market power and proposals to mitigate market power associated with these attributes should also be part of the process.

Without first letting the market know what operational needs the CAISO has and without designing a comprehensive structure to secure these attributes, the CAISO risks inefficient and duplicative backstop procurement, and in turn unnecessarily increasing costs to customers and distorting market outcomes.

7. Procure capacity in situations where the output of intermittent Resource Adequacy resources is significantly lower than their RA values.

SCE remains opposed to the CAISO's proposal to establish authority to procure capacity when intermittent resources are not operating at anticipated levels. We disagree with the CAISO's interpretation that the existing Significant Event language provides such authority. Moreover, the CPUC has already addressed non-performance risk via the exceedance methodology used to count the RA qualifying capacity of intermittent resources. For the CAISO to procure capacity in addition to this would effectively increase the planning reserve margin. This is outside of the jurisdictional role of the CAISO.

SCE believes that the CAISO's recently initiated Outage Replacement Rule for RA Generators stakeholder process may be a more appropriate forum to discuss this topic. Suggesting that this topic be addressed in another forum should not be construed as support for the associated proposal, but rather our support to closely coordinate *all* discussions pertaining to unavailable (planned or unplanned) RA resources.

8. Procure capacity that is needed for reliability but is at risk of retirement.

SCE does not support expanding CAISO authority to address risk of retirement in this forum. First, the CAISO's existing RMR authority provides the CAISO the ability to contract with a non-RA resource (including resources that may be at risk of retirement), on a year-ahead basis if needed for reliability. Second, longer-term (i.e., beyond one year) resource retirement impacts must be considered in close coordination with Local Regulatory Authorities, including the CPUC's LTPP. In Section 7.2.5 of the CAISO's Revised Draft Final Proposal, the CAISO describes "Year 1" and "Year 2" scenarios regarding potential backstop procurement of capacity at risk of retirement (see page 26-27). Under the current RA program, LSEs are not under an obligation to procure RA capacity beyond a year-ahead. The CAISO backstop authority must align with the procurement time frames adopted in the RA program. The CAISO has not demonstrated that the existing RA program, the CPUC's LTPP, and the CAISO's current RMR contracting authority are insufficient to address reliability needs associated with potential generation retirement. SCE strongly opposes the CAISO seeking in this CPM proposal additional contracting authority for resources at risk of retirement. SCE encourages the CAISO to participate in venues such as the LTPP to ensure that reliability concerns associated with potential generation retirement are adequately addressed.

Granting the CAISO authority to provide generators with a contract to preclude retirement has the potential end effect to create significant costs and market distortions, and should not be casually addressed as part of this process. This

topic creates material incentive issues for generators; namely, if generators will continue to participate in the market or threaten retirement simply to obtain a CAISO contract. These incentives must be carefully and comprehensively addressed in order to limit perverse behavior and resulting market distortions. Moreover, this topic raises a host of additional complex issues including payments under the contract, cost allocation, possible coordination with the RA process (including the potential expansion of “attribute” requirements), the timing of when such a contract would be awarded, the treatment of market rents, obligations of generator performance, penalties for lack of performance, rights provided to the CAISO under the contract, and the interaction of CAISO instructions and generator market participation. These complex issues require full stakeholder discussion and involvement if a new form of contract is to be created. Given this complexity, simply using the CPM contract as proposed by the CAISO is clearly inappropriate.

SCE shares the CAISO’s underlying concern that potential gaps exist within the existing one-year forward looking RA Market which, if left unchanged, may indeed result in grid reliability issues when certain generation resources retire. However, this CPM back-stop procurement effort is not the appropriate time or place to resolve this issue.

SCE encourages the CAISO to continue working with the CPUC and other stakeholders to identify the characteristics of generation resources (size, location, products, etc.) required to meet grid reliability needs. In conjunction with this effort, a discussion of options to procure the needed capacity and the appropriate mechanism to allocate costs should be initiated.