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 was created to help stakeholders structure their written comments on topics related to the July 15, 2010 Straw Proposal for Capacity Procurement Mechanism ("CPM"), and Compensation and Bid Mitigation for Exceptional Dispatch. Please submit comments (in MS Word) to bmcallister@caiso.com no later than the close of business on July 30, 2010.

Please add your comments where indicated responding to the topic or question raised. Your comments on any aspect of the straw proposal are welcome. The comments received will assist the ISO with the development of the Draft Final Proposal.

Please provide your comments on the following topics and questions. Your comments will be most useful if you provide the reasons and the business case for your preferred approaches to these topics.

CPM

1. The appropriate duration of the tariff provisions associated with the CPM: should they be permanent or terminate on a certain date or under certain conditions? If the CPM should terminate, please be specific about the date or conditions upon which it would terminate and indicate the reasons for your proposal.

   The Six Cities support an open-ended term for the CPM and, therefore, do not recommend a specific sunset date for the CPM provisions. However, the ISO should conduct periodic assessments of the CPM. The Cities recommend that such assessments occur on an annual basis, at least initially. In particular, the first such assessment should occur no later than twelve months after the CPM becomes effective in order to provide an opportunity to consider the impact of policies and procedures for integration of renewable resources that are developed during that period. Depending upon how frequently the CPM is triggered, it may be appropriate to modify the period covered by subsequent assessments.

2. The appropriate treatment of resources that may be procured through CPM or Exceptional Dispatch but then go out on Planned Outage during the period for which the resource has been procured. What are your views on the proposed formula in the straw proposal for compensating such resources?

   A resource that has been procured through CPM or Exceptional Dispatch should not receive a capacity payment for any period during which it is unavailable due to a Planned Outage. The Six Cities support the ISO's proposal to reduce the CPM payment based on the number of days within the 30-day CPM designation period that the resource is on a planned outage. The Six Cities also support the ISO's proposal to allow the resource to provide equivalent substitute capacity from another resource to avoid the reduction in the CPM payment.

3. Modification of the criteria for choosing a resource to procure under CPM (section 43.3) to provide the ISO with the ability to procure non-use limited capacity over use-limited capacity.

   The Six Cities support the ISO's proposal to modify the selection criteria under Section 43.3 to allow the ISO to select eligible capacity from a resource that is not use-limited over capacity from a resource that is use-limited.

4. The three new types of procurement authority for generic backstop capacity the ISO is proposing.

   a) Procurement of generic capacity to allow planned maintenance to occur - - The Six Cities oppose procurement by the ISO under CPM for this purpose absent further explanation of need for this type of procurement. The Cities understand that Resource Adequacy requirements incorporate reserve margins that should be sufficient to accommodate planned maintenance. Moreover, the ISO has the authority to direct Scheduling Coordinators to reschedule planned maintenance if necessary. It is not clear why CPM designations should be necessary to support planned maintenance given both the reserve margin included in the RA program and the ISO's ability to direct planned maintenance.

   b) Procurement of generic capacity to backstop observed less-than-planned output from intermittent resources - - The Cities do not oppose procurement by the ISO under CPM for this purpose, <u>provided that</u> the costs for the CPM designation for this purpose are assigned to the Scheduling Coordinator for the intermittent resource or resources that caused the need for the CPM designation.

c) Procurement of generic capacity of resources that are needed for reliability that are in danger of shutting down due to lack of sufficient revenues - - The Six Cities oppose procurement by the ISO under CPM for this purpose. Resources that are needed for reliability but are in danger of shutting down should be designated as Reliability Must Run ("RMR") and compensated under the established RMR provisions. The ISO has not explained why it is either necessary or appropriate to designate and compensate such resources under CPM rather than under the established RMR mechanism.

5. The compensation that should be paid for generic capacity procured under CPM and Exceptional Dispatch. Which method do you support: Option A – CONE net of peak energy rent; or Option B – going forward costs? Are there further modifications needed to either of these pricing options? If you have a specific alternative pricing proposal, please provide it and indicate the reasons for your proposal.

   The Six Cities strongly oppose Option A (CONE net of peak energy rent) as the method for compensating capacity procured under CPM. There is no justification for basing CPM payments on CONE, because CPM capacity necessarily will constitute existing capacity at the time of procurement. As the Straw Proposal explicitly recognizes, CPM is not an appropriate mechanism to create incentives for the development of new capacity resources. Basing CPM payments on CONE will simply provide a windfall to existing capacity resources at the expense of customers.

   Because it is based on going-forward costs, the Option B method comes closer to being an appropriate basis for CPM payments. However, the Option B approach should be based upon the going forward fixed costs for the existing generating units most likely to be procured or dispatched by the ISO under CPM or Exceptional Dispatch, plus a reasonable allowance for O&M. Because the ISO's proposal is based upon the going forward costs of a "new entrant/high priced unit," rather than the going forward costs of units that are most likely to be designated or dispatched by the ISO, the proposed Option B payment amount may still be unreasonably high. The current level for the capacity payment under ICPM is $41/kW-year. The ISO's proposed Option B payment level is $55/kW-year. Although the ICPM payment level is based upon data from several years ago, the ISO has not explained why the going forward costs for existing generators have increased by 34%.

6. The need for the ISO to procure non-generic capacity under CPM and Exceptional Dispatch to meet operational needs.

   As indicated previously, the Six Cities generally support the concept of permitting the ISO to specify the criteria for procurement of capacity under the CPM in a way that will allow the ISO to procure the resources that will best satisfy the ISO's operational needs at the lowest possible cost.

7. The operational criteria the ISO is proposing to distinguish certain operational characteristics as non-generic capacity (fast ramping and load following). Are these two characteristics enough, or do you propose additional criteria for operating characteristics that would qualify for non-generic capacity?

   At this time, the Six Cities have not identified any additional operating criteria that should be specified.

8. How should non-generic capacity be compensated? What are your views on the proposal to compensate non-generic capacity by applying an adder to the price paid for generic capacity?

   The Six Cities would like further explanation, including an illustrative example, of the ISO's suggested approach for developing an "adder" to the base CPM payment.

<u>Exceptional Dispatch</u>

1. Should energy bids for resources dispatched under Exceptional Dispatch continue to be mitigated under certain circumstances? Should such mitigation continue the current practices of bid mitigation as outlined in the straw proposal?

   Energy bids for resources dispatched under Exceptional Dispatch should continue to be mitigated whenever such bids may reflect non-competitive conditions.

2. Should the ISO change the categories of bids subject to mitigation under Exceptional Dispatch (Targeted, Limited and FERC Approved) and extend the bid mitigation for the existing categories?

   The Six Cities have no comment on this issue at this time.

3. What is the appropriate compensation for non-RA, non-RMR and non-CPM capacity that is Exceptionally Dispatched? Should the current compensation methodology be extended, updated to agree with what is put in place for CPM for generic capacity procurement?

Non-RA, non-RMR, and non-CPM capacity that is Exceptionally Dispatched should receive a capacity payment no greater than a one-month payment based on the capacity price adopted for the CPM. As noted above, that price should be based upon the going-forward costs for existing capacity, plus a reasonable allowance for O&M. Further, the Six Cities recommend that the ISO analyze the historical payments to resources that have been Exceptionally Dispatched to evaluate whether the minimum one-month payment under the current tariff provisions has resulted in unreasonably high payments to Exceptionally Dispatched resources.

<u>Other</u>

1. Do you have any additional comments that you would like to provide?

   The Six Cities have no additional comments at this time.