

SDG&E COMMENTS ON THE CAISO'S SECOND DRAFT OF THE CAPACITY PROCUREMENT MECHANISM (CPM) TARIFF

As a general comment, SDG&E continues to protest the CAISO's decision to expand the CPM tariff to include authority for the CAISO to offer CPM contracts to generating units that the CAISO believes may be needed for reliability purposes in years beyond the current one-year resource adequacy (RA) compliance year. The CAISO has not demonstrated that this potential problem cannot be solved within the context of the CPUC's bilateral Long Term Procurement Plan (LTPP) and (RA) proceedings. SDG&E believes the CPUC has primary authority over LTPP/RA matters, and that the burden is on the CAISO to demonstrate that the bilateral LTPP/RA markets will fail to promote an orderly and economic exit for units nearing the end of their useful life. The CAISO has made no attempt to demonstrate that bilateral market failure is highly probable, so SDG&E views the CAISO's request for authority to intervene in bilateral negotiations to meet the CPUC's LTPP/RA requirements as unnecessary and counterproductive. Indeed, the mere possession of such authority by the CAISO would distort negotiation incentives between LTPP/RA sellers and buyers.

Without waiving its general objection to all provisions of the draft CPM tariff pertaining to generating unit retirement matters (section 43.2.6), SDG&E proffers two comments on the most recent tariff language. First, section 43.2.6 (3) should be revised to require the CAISO to offer its "technical assessments" on unit retirements in the CPUC's LTPP/RA proceedings. Delivering these technical assessments too late for market participants to act renders it useless. The CAISO should move from a *reactive* mode triggered by a generator giving notice to retire to

a *proactive* mode of providing information related to retirement earlier in the LTPP and RA proceedings so that an efficient market-based solution can emerge.

The CAISO already provides a similar analysis when it determines annually how much capacity is needed in a local area and what generation is effective in meeting that need. The CAISO should expand this analysis to identify the extent to which certain units are likely to be needed in meeting future (projected) local capacity requirements, say the next 3-5 years, thereby allowing market participants to negotiate commercial arrangements while there may still be time to consider alternative solutions. Giving load-serving entities less than 90 days to procure capacity that now knows it will be getting a CPM designation makes a mockery of the LTPP and RA mechanisms. The CAISO should instead use its on-going analysis of all aspects of the system, including transmission upgrades and projected levels of load and supply, to apprise market participants of projected needs in capacity constrained regions so that market participants can negotiate economically efficient outcomes for units that are in the closing years of their useful life.

Second, section 43.2.6 (5) should be clarified by adding the words “without the revenues from CPM” to the end of that section after the word “definite”. The suggested edit is designed to remove the current ambiguity created by the notion that a officer is being required to swear that retirement of a unit is “definite” even as that same officer is making a voluntary request for a CPM designation to keep the unit operating.