



Dynegy Marketing & Trade Comments on CAISO Reliability Services Initiative

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March 3, 2014

Dynegy appreciates the opportunity to provide input on the CAISO's Reliability Services Initiative. We're concerned that the most effective and transparent market solution to the issue of Resource Adequacy has been taken off the table by the CPUC. Based on our experience we firmly believe that a voluntary residual auction isn't worth pursuing. We would prefer an administrative backstop to a voluntary residual auction.

Residual Procurements

The proposed monthly residual procurement appears to be like the Voluntary Capacity Auction that predated MISO's current annual auction. Dynegy has had a lot of experience with monthly residual capacity auctions in the Midcontinent Independent System Operator and would not recommend them to the CAISO, regardless of whether it is annual or monthly, for the following reasons:

- The Residual Auction is likely to be voluntary for LSEs, but NOT for generators
 - Likely to result in very low capacity prices ([see MISO VCA clearing prices](#), page 31)
 - Residual quantities only, all resources won't have to clear through the auction
 - Participation may be limited by the CPUC
- Low clearing prices in the Reliability Backstop procurement likely to result in insufficient revenue to needed units, potentially requiring yet another backstop or one-off contract
 - Asymmetrical performance obligations
 - Generators are required to must offer and replace capacity for outages
 - LSEs aren't penalized for not curing deficiencies (with potential multiple windows to clear a deficiency), just required to pay the auction clearing price for shortfall

MISO IMM comments from [2012 State of the Market Report](#) on MISO's capacity market flaws (close parallel to CAISO except for coal plants)

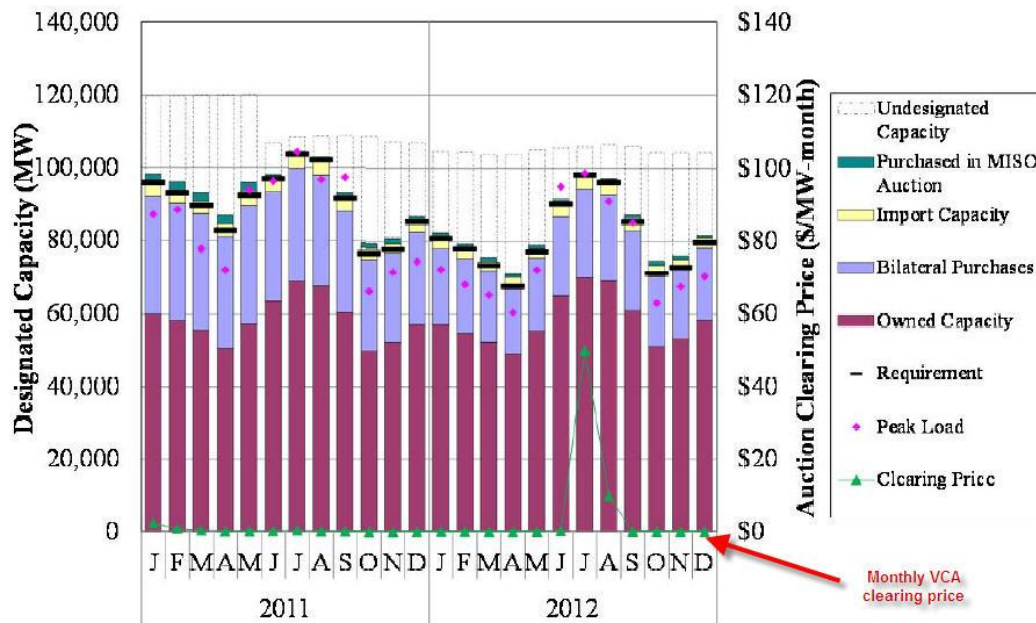
"Our net revenue analysis in this report shows that the MISO's economic signals would not support private investment in new resources, which is partly due to the modest capacity surplus that currently exists in MISO. However, we believe the economic signals would continue to be inadequate even under little or no surplus because of the shortcomings of MISO's current capacity market described in this report. This resource adequacy concern is likely to rise as environmental regulations, increasing wind output, and low natural gas prices accelerate the retirements of coal-fired resources in the medium term."





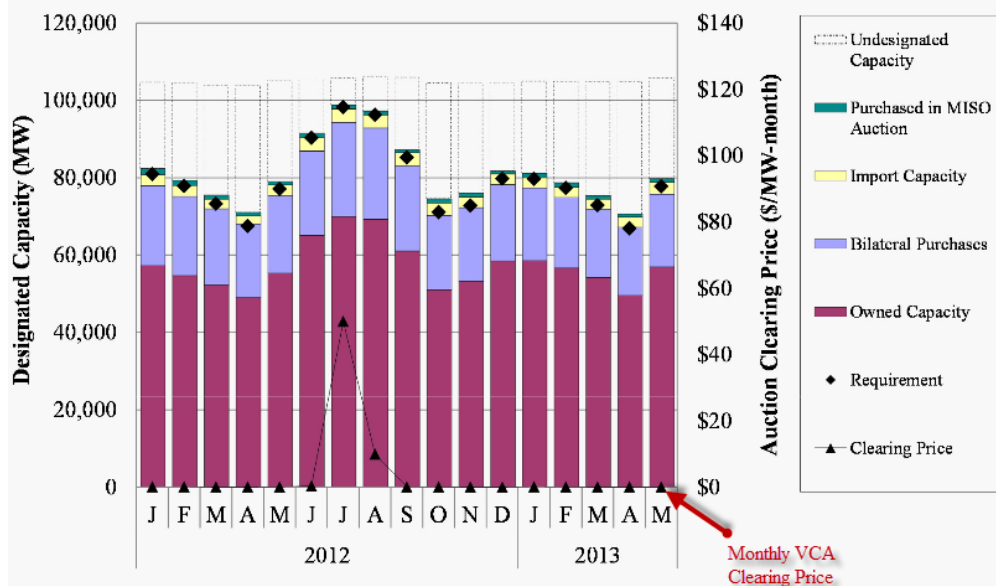
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Figure 8: Voluntary Capacity Auction
2011–2012



Note high owned capacity and bilateral contracts with much smaller volumes cleared through the auction

Voluntary Capacity Auction January 2012–May 2013



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