

Dynegy Comments in Response to  
Proposed Risk of Retirement CPM Designation for Sutter Energy Center  
Submitted by: Jason Cox  
December 16, 2011

Dynegy welcomes the opportunity to provide comments on CAISO's proposal as outlined in its December 6, 2011 "Report on Basis and Need for CPM Designation for Sutter Energy Center" ("Report") and December 9, 2011 stakeholder conference call. The CAISO proposal has numerous policy implications and highlights the need for CAISO and the CPUC to conduct an in-depth evaluation of markets and procurement processes.

Process Concerns: The CAISO should employ the stakeholder process to develop reliability rules and solutions before the need arises rather than submitting a waiver request to FERC to request permission to employ an opaque, out of market mechanism to address reliability issues. Due to a lack of transparency into the CAISO's process surrounding the Sutter CPM designation, it is difficult to evaluate whether CAISO's proposed reliability solution (CPM designation for Sutter) is the most efficient or most cost effective solution to maintain reliability in 2017.

Dynegy supports CAISO's proposal to initiate a stakeholder process in January 2012 to develop a longer-term procurement mechanism. However, CAISO's goal of completing this stakeholder process within six months is likely overly optimistic. Capacity procurement is a complex issue involving many market design decisions as well as the balancing of diverse interests. Dynegy encourages CAISO to outline a plan for the proposed stakeholder process, including milestones it expects to achieve and the timing for achieving those milestones.

Procurement Policy: The Sutter designation highlights significant shortcomings in CAISO markets and CPUC procurement policy, including the lack of a comprehensive set of markets and procurement policies focused on ensuring future system reliability. The CAISO and the CPUC should take this opportunity to examine and address these shortcomings.

Various CAISO market monitoring reports have repeatedly found that the markets are functioning properly,<sup>1</sup> yet Sutter and similarly situated facilities are unable to recover their costs. Sutter has submitted a retirement notice and similarly situated facilities may follow Sutter's lead, resulting in significant reliability and financial effects on the CAISO markets. Simply put, the CAISO does not currently have properly functioning market-based mechanisms for procurement to satisfy forward reliability requirements. As outlined in CAISO's 2010 Market Issues and Performance Annual Report, CAISO energy and AS markets provide minimal contributions towards the recovery of capital and other fixed costs.<sup>2</sup> The current RA program is largely bilateral in nature (with the exception of RMR and CPM) and based on a short-term planning horizon, focusing only on reliability needs for the coming year. Because the markets are oversupplied today, they provide minimal compensation. However, the current oversupply situation will not last forever and the energy compensation and RA compensation do not send

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<sup>1</sup> See CAISO 2010 Market Issues & Performance Annual Report, Department of Market Monitoring, at pg 57.

<sup>2</sup> *Id.* at pg. 10. ("The 2010 net revenue estimates for a hypothetical combined cycle and combustion turbine both fall substantially below the estimates of the annualized fixed costs for these technologies developed by the California Energy Commission. For a new combined cycle unit, net operating revenues earned from the markets in 2010 are estimated at about \$31 to \$36/kW, compared to estimated annualized fixed costs of \$191/kW." See Table 2.8 for 2009 values of \$38 to \$40/kW.)

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the proper market signals to ensure that units necessary for future reliability remain operational. Therefore, market mechanisms that send the appropriate signals should be developed. To that end,

Dynergy supports the development of a long-term capacity market, including the establishment of adequate planning reserve margins and a locational component to ensure CAISO's future reliability needs are met. The CAISO should also use spot markets to procure any balancing resources necessary to integrate renewables.

Waiver Request: CAISO is responsible for ensuring reliability within its footprint and has determined that Sutter should be designated as capacity at risk of retirement. While a more transparent, market-based procurement process to address CAISO's determination of need for 2017 would have been preferable, Dynergy does not oppose the CAISO waiver request to implement the Sutter CPM backstop designation. However, Dynergy strongly supports quickly replacing backstop designation processes such as this with a market-based, transparent procurement process that features a three to five year planning horizon.