

## Stakeholder Comments Template Subject:

### 2012 GMC Cost of Service Study Discussion Paper

Submitted by	Company	Date Submitted
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ISO seeks written stakeholder comments on its 2012 GMC Cost of Service Study Discussion Paper located at: <http://www.caiso.com/281a/281ac7f165ad0.html>.

Stakeholders should use this Template to submit written comments and or suggestions. Written comments should be submitted no later than Close of Business on Thursday, October 21, 2010 to: [gmc@caiso.com](mailto:gmc@caiso.com). Comments will be posted on the ISO website. The subject areas upon which ISO seeks stakeholder input are:

1. Please comment on the design principles listed in the discussion paper, and suggest any others you believe should be considered.

Dynegy supports the principles of cost causation, transparency, and predictability.

In regards to focusing on the use of CAISO services, not market behavior – this topic warrants further discussion. For example, while the CAISO proposes per-bid fees to deter “spamming” or “fishing” (submitting large numbers of bids), it processes those bids electronically, so that the level of incremental cost imposed by an additional bid is difficult to discern. Assuming, *arguendo*, that market prices, not GMC rates, should discipline market behavior, it’s difficult to discern whether other things such as CAISO market prices are having the desired effects (e.g., in reducing levels of self-scheduling). In theory, designing GMC rates that recover costs, not manipulate market behavior, is probably a reasonable goal, but it is a discussion that is difficult to have without also discussing how other things affect market behavior.

In regards to forecastability – which the CAISO defines as using billing determinants that can be easily forecasted by both the CAISO and market participants – it appears the CAISO may be moving towards withdrawal or injection MWh as a billing determinant that would apply to more, or larger, cost categories than under its current GMC rate structure. It’s not apparent that accurate forecasts for these quantities, which seem appropriate billing determinants, are readily obtained or available for market participants to use. Reductions in throughput MWh over the last year have led to unanticipated and significant changes in GMC component rates. Nevertheless, it is probably much easier for market participants to forecast billing determinants like withdrawal and injection MWh than to forecast other billing determinants like the number of bids.

In regards to simplicity – simplicity and cost causation are appropriate rate design principles that nevertheless may conflict. Dynegy looks forward to seeing how the CAISO balances the tension between simplicity and cost causation.

2. Please comment on the use of ABC and the allocations into the 3 proposed GMC service categories.

Dynegy appreciates that the CAISO has broken out CRRs into its own category. Dynegy regrets that this separation did not take place earlier, because Dynegy still perceives that the development and administration costs of this system, which does not benefit all market participants, and disproportionately benefits a few, were allocated broadly to market participants, while the development and administration costs of other systems that also had a limited set of beneficiaries were recovered specifically from those beneficiaries.

Because the CAISO's market and system operation systems are, to a large extent, intertwined, there may be some unavoidable overlap between those two buckets.

In Table 6, it's not apparent why 100% of market design and regulatory policy costs are allocated to market services, while 100% of the costs to develop State/Federal policy are allocated as an indirect cost. And while the opportunity to comment on other proposed allocations of activities to cost categories may be tempting, Dynegy expects that conversation may best be had after the bill impact statements are released.

3. Please comment on the options the ISO has described for the billing determinants for allocating charge codes to users. Please describe any other options you believe should be considered.

The CAISO has proposed four billing determinants: demand MWh, supply and demand MWh, transaction fees and administration fees. These all are reasonable ways to allocate costs. As noted above, transaction fees can serve a simultaneous function of allocating costs and encouraging or discouraging certain market behaviors, an aspect of GMC rates that the CAISO has indicated it wishes to discontinue. Other approaches, such as "capacity" based approaches (e.g., a MW, not MWh, "demand" charge) could be part of the discussion.

Dynegy is intrigued by the CAISO's proposed approach for simplifying the GMC rate structure and looks forward to further discussions. Clearly, how market participants feel about the CAISO's proposed approach will largely depend on the billing impacts. Dynegy expects that the bill impact statements will stimulate more discussion about the details of the CAISO's approach.