Dynegy Comments on CAISO GMC Straw Proposal
November 29, 2010

The CAISO's proposal to simplify its Grid Management Charge is intriguing. However, it is apparent that the redesign will create winners and losers. Some market participants' GMC is going to go up, and some is going to go down. Individual market participants' bill impact statements will tell them how they are going to fare under the proposed new GMC as compared to under the existing GMC. While the chart on Page 16 of the CAISO's GMC Straw Proposal shows how much GMC cost is shifted from one class of market participants to another, that chart does not describe why the cost is being shifted. Dynegy asks that the CAISO qualitatively describe why the GMC costs go up for some market participants and go down for others under the proposed GMC structure. If the existing GMC structure is just and reasonable, it's not yet clear why the new GMC structure would necessarily be more just and reasonable.

While the CAISO agreed that allocating the Market Usage – Forward Energy charge on a gross basis was the right thing to do, the CAISO ultimately allocated that charge on a "max of" basis to mitigate the impacts on certain market participants.[1] It therefore seems reasonable that the CAISO should be open to discussing mitigating the impacts of its proposed new GMC structure on market participants.

The principle of re-designing its GMC charges to focus on how parties use CAISO services rather than on encouraging market behavior seems to be a reasonable principle. However, it also seems a bit naïve to assume that CAISO market outcomes, in and of themselves, are going to encourage the kinds of behavior that the CAISO wants to encourage – or in the case of self-scheduling, discourage. CAISO market prices have been low, and price volatility seems to be as much a consequence of software performance as of market fundamentals.

As a general matter, Dynegy is curious about the significant difference between the market services rate (nine cents per MWh) and the system operations rate (28.41 cents per MWh). It's not intuitive why there would such a marked difference in those rates.

As Dynegy understands, these are the cost components of how the market services and system operations rates were determined.

,000s	Market Services	System Operations	CRRs	Indirect	Total
Direct Activities	11474	45923	1500	5928	64825
ABC Support Activities				64850	64850
Non-ABC Support	450	450	100	32020	33020
O&M	11924	46373	1600	102798	162695

[1] Amendment to Extend and Modify Grid Management Charge, submitted by the CAISO on October 30, 2009 in docket No. ER10-188, at 5 ("Although the ISO concluded that the gross option better reflected cost causation principles, it was concerned that applying the charge to "gross" energy schedules would result in substantial cost impacts to certain market participants.")

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Could the CAISO explain what fundamental – personnel, equipment, other – leads to three times as much direct cost for system operations as market services? It seems that it is this difference – more than any difference between the billing determinants for the two categories – that contributes to the different rates.

In any case, Dynegy looks forward to seeing the impacts of the proposed new GMC structure on its GMC, and to further explanation from the CAISO as to why the proposed new structure shifts costs among classes of market participants.