



Template for Submission of Comments on 5-Year Market Initiatives Roadmap

The CAISO is requesting written comments to the *Preliminary Results of the High Level Prioritization of Market Enhancements* that was discussed at the April 30th Market Initiatives Roadmap Stakeholder meeting. This template is offered as an optional guide for entities to submit comments; however participants are encouraged to submit comments in any form.

Comments are requested by close of business Friday, May 9, 2008 and should be submitted to mmiller@caiso.com. Please contact Margaret Miller at mmiller@caiso.com or 916 608-7028 with any questions.

All documents related to the Market Initiatives Roadmap effort are posted on the CAISO Website at the following link:

<http://www.caiso.com/1fb1/1fb1856366d60.html>

Please provide responses to the following questions:

Responses from Brian Theaker, Dynegy:

1. The market enhancements listed below were raised as high priority by market participants that presented at the April 30th stakeholder meeting. The reference to the section of the Roadmap where these initiatives are located is provided for your reference. Do you agree these should be considered high priority initiatives and if so why?
 - a. Voltage Support Procurement – 2.5.1

This should be a high priority item. On September 30, 2005 FERC directed the CAISO to submit “a proposed structure for the implementation of competitive procurement of Voltage Support and Black Start services.” FERC continued: “Such submittal should include its plans for the implementation of competitive procurement of those services, including a proposed timeline for doing so.” On January 30, 2006, the CAISO submitted a proposal that called for final policy resolution of issues regarding competitive procurement of voltage support and black start by March 30, 2007, with

production software completed by September 2008 for deployment in 2009. At the time the CAISO submitted this proposal, MRTU was scheduled to be implemented in February 2007. This means that, at the time, the CAISO intended to implement competitive procurement of voltage support and black start service less than two years after the implementation of MRTU.

The CAISO initiated a stakeholder process for voltage support and black start procurement in 2006. In June 2006, the CAISO's stakeholder process regarding voltage support and black start procurement abruptly ended, with no formal indication as to why it was ending or when it would be renewed. The CAISO has not submitted to FERC a new plan and schedule for the competitive procurement of these services.

While FERC did not direct implementation of voltage support and black start procurement to occur on a specific date, FERC was aware that the CAISO was heavily involved with MRTU at the time it ordered the CAISO to submit a proposed structure for the competitive procurement of voltage support and black start – not just a plan for looking at the issue. The CAISO cannot now simply defer indefinitely implementing a structure for the procurement of these services – especially after its last communication with FERC regarding this issue was a plan for doing so with deadlines now long past – based on a recent ranking of several dozen other market initiatives.

b. Economic Methodology for Transmission Outages 2.2.3.30

No comment.

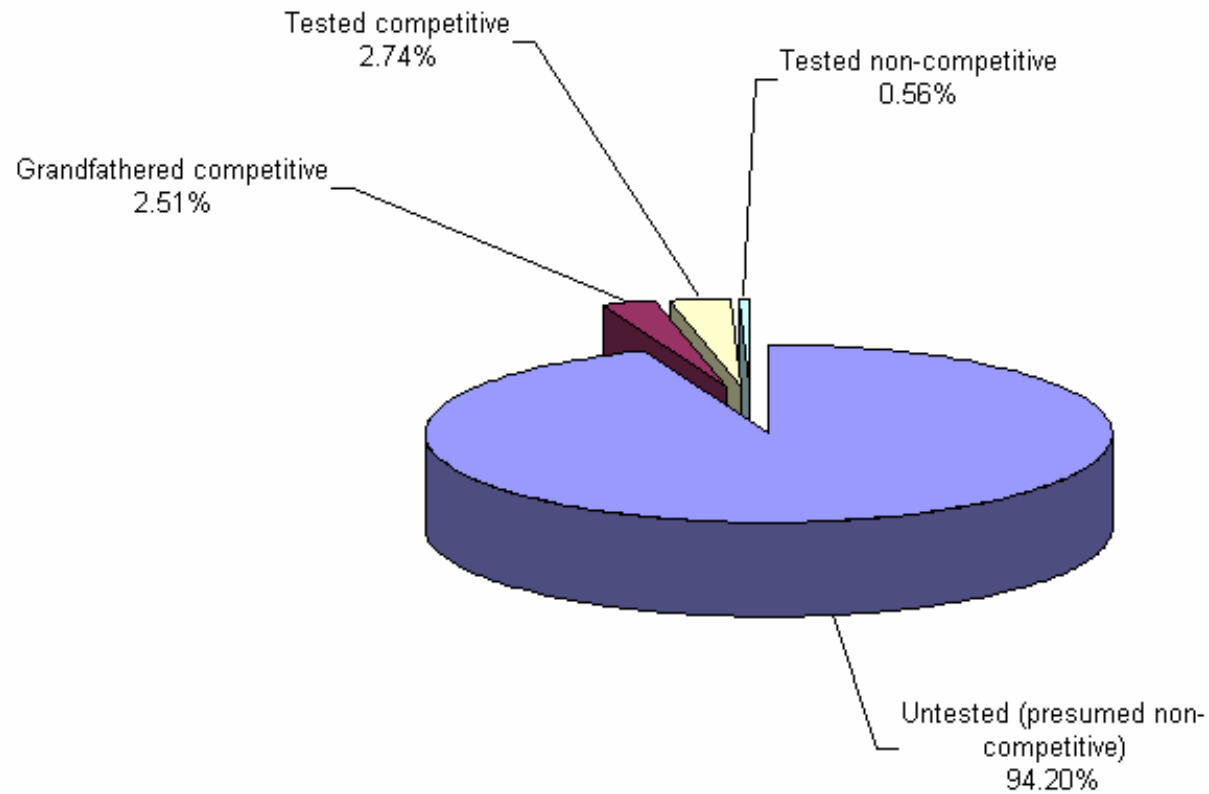
c. Strengthening General Market Power Provisions - 2.2.3.26

No comment.

d. Dynamic Pivotal Supplier Test – 2.2.2.5

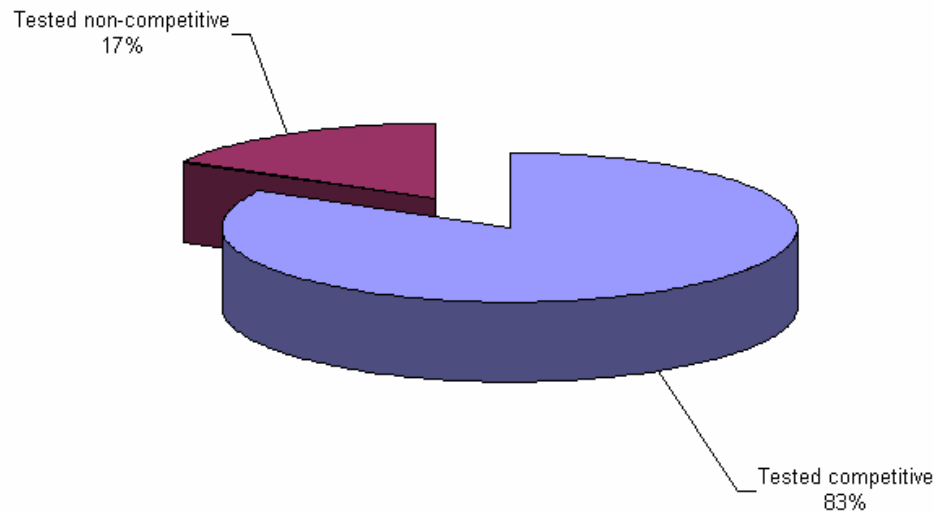
This should be a high priority item. The CAISO need not invent dynamic pivotal supplier analysis; dynamic pivotal supplier analysis is a tested part of other ISOs' operating markets. The CAISO's current approach to dynamic pivotal supplier analysis, namely, that assuming that transmission paths are not competitive in every hour in a year or season merely because they are not tested, or merely because those paths fail a tiny number of hours under highly stressed conditions in that year or season undermines the CAISO's markets and competitively, rather than administratively, determined prices.

The following graphs show the results from the CAISO's third competitive path analysis. The CAISO has tested only a tiny fraction of transmission paths - 3.3% - to determine if they are competitive. Over 94% of CAISO transmission paths are deemed to be non-competitive simply because they have not been studied.

CAISO CPA Release 3 Results

Of the transmission paths that the CAISO has studied in its competitive path analysis, a large majority (83%) have been found to be competitive:

**Results of Competitive Path Assessment Release 3 For TESTED Paths
(160 total paths)**



Moving from an annual to a seasonal competitive path assessment provides a more equitable result, but the seasonal assessment will still suffer from the “fail one hour, fail the entire study period” approach. Moreover, simply moving to seasonal assessment will not, on its own, increase the number of paths studied and address the problem of the large number of paths that are deemed non-competitive merely because they aren’t studied.

So, given

- ***that the current approach deems over 94% of transmission paths to be non-competitive without even studying them;***
- ***that 83% of the paths tested in the most recent analysis were found to be competitive; and***
- ***that dynamic pivotal supplier analysis has already been successfully deployed in other ISOs,***

Dynegy urges the CAISO to make dynamic pivotal supplier analysis a high priority and move aggressively to adopt it in lieu of the less effective interim approach of adopting seasonal competitive path analysis.

2. Are there other initiatives that you believe the CAISO should further consider as high priority going into the detailed ranking process? The chart below can be used to rank and provide detail on the proposed items using the high prioritization criteria. In providing your justification for a proposed market enhancement, the specific business needs of your company are extremely important and should be described as clearly and fully as possible

Roadmap section number	Title and description of proposed enhancement	Does this market enhancement have a High, Medium or Low impact on improving Grid Reliability and why?	Does this market enhancement have a High, Medium or Low effect on improving market efficiency and why?	Estimated Implementation /Cost Impact to CAISO Please specify (High, Medium or Low)	Estimated Implementation/Cost Impact to Market Participants Please specify (High, Medium or Low)

3. Were the initiatives the CAISO determined to be high priority out of the high level prioritization ranked correctly? If not how should the results be adjusted?

While Dynegy would obviously like to see the items listed above ranked as high priorities, Dynegy agrees with many of the items that emerged from the initial high level prioritization. In particular, Dynegy supports:

- Creation of a 30-minute reserve product (note that Dynegy's support for creation of a 30-minute reserve product after implementation of MRTU does not constitute support for the CAISO's proposal to procure this service through Exceptional Dispatch upon implementation of MRTU);*
- Simultaneous RUC and IFM. Reflecting the actions the CAISO takes in RUC to meet reliability needs not met in the Day-Ahead market in Day-Ahead prices will further improve those prices;*
- Multi-settlement system for Ancillary Services;*
- Multi-day unit commitment in IFM;*

- *Auctioning, rather than allocating, CRRs; and*
- *Regional procurement of and cost allocation for Ancillary Services (though Dynegy notes that the CAISO already sought and was granted authority to procure Ancillary Services on a regional basis in MRTU, and that this issue is already under discussion in the Scarcity Pricing stakeholder process).*

Dynegy thanks the CAISO for the opportunity to provide these comments.