

**Comments of
Mirant California, LLC,
Mirant Delta, LLC, and
Mirant Potrero, LLC
On Standard Capacity Product – Phase II Proposal**

Submitted by	Company	Date Submitted
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On behalf of Mirant California, LLC, Mirant Delta, LLC, and Mirant Potrero, LLC (collectively, Mirant), we offer the following comments on the *Standard Capacity Product II – Draft Final Proposal* dated February 19, 2010. Although the *Draft Final Proposal* addresses a number of issues related to the on-going implementation of a Standard Capacity Product (SCP), Mirant’s comments focus on the treatment of planned outages. In particular, Mirant urges the CAISO to take additional time to flesh out and receive comment on its proposal for replacement capacity. In addition, the CAISO should further explore Southern California Edison’s (SCE’s) proposal to modify resource adequacy (RA) obligations to take into account planned outages. Consistent with these comments, Mirant supports a delay in consideration of the *Draft Final Proposal* by the CAISO Board from March to May.

Details Regarding Replacement Capacity Require Further Attention.

Mirant understands the desire to make the SCP a more easily traded, fungible product. To that end, removing the load serving entity (LSE), to the extent possible, from further obligation once an RA obligation is fulfilled through the SCP process should improve the chances that the SCP becomes a more vibrantly traded product. However, any measures taken to remove the LSE from further obligation must also be balanced against the costs they would impose ultimately on ratepayers.

As one example where an economically efficient outcome may not be achieved, the *Draft Final Proposal* would require the supplier of RA capacity to use its “best effort” to replace an RA resource on a planned outage with a non-RA resource from the same local area. Imposing on RA suppliers a requirement to replace capacity adds significant challenge, because many such suppliers will have to begin participating in the purchase of RA for the limited periods they expect to be on scheduled outages, which are

likely the same periods other suppliers will be planning outages. Therefore, under this approach, the likelihood is that not only will there be additional costs imposed on suppliers to manage RA procurement (and eventually pass on in future RA contracts), but it is also likely that such RA will be more expensive than if it were procured through a yearly block.

Mirant is also concerned with the *Draft Final Proposal's* position that if a supplier purchases system RA to fulfill its replacement obligation, then that supplier would still bear Interim Capacity Procurement Mechanism (ICPM) costs if the CAISO decided the system purchase did not fulfill the local need. In some cases, there may not be any local capacity to procure to avoid the ICPM costs. Furthermore, the CAISO retains the final determination of whether to allow a planned outage to occur. Given these factors, it seems overly punitive to require an RA supplier to bear the ICPM costs, which will lead to higher costs for ratepayers, and may in many cases not change the actual system reliability.

The CAISO should generate further stakeholder comment on this initial replacement proposal prior to placing it before the Board of Governors for a vote. The *Draft Final Proposal* sets forth the framework in three relatively short paragraphs, obviously leaving many details to be addressed. Furthermore, the replacement proposal makes its first appearance in this document; the CAISO previously determined that the replacement rule was beyond the scope of SCP II. Before RA suppliers can be asked to support a new replacement framework, there should be a more concrete understanding of what obligations are being considered and what the implications of those obligations are. For example, what does it mean to impose a "best effort" requirement on an RA supplier to procure replacement capacity, and what are the consequences if a "best effort" is not used? Given concerns with the replacement proposal even in its barest of details, the initial appearance of the replacement proposal in the *Draft Final Proposal*, and the lack of adequate stakeholder input on which to base a sound decision, the CAISO should delay consideration of the *Draft Final Proposal* until after the March 2010 Board of Governors meeting. At a minimum, the replacement requirement portion of the *Draft Final Proposal* should be considered separately from the other provisions of the *Draft Final Proposal* if the CAISO determines that those other provisions require immediate attention.

The CAISO Should Give Further Consideration to SCE's Planned Outage Proposal.

SCE has made a proposal to modify RA rules to give explicit consideration to planned outages when setting RA procurement obligations. Mirant is very interested in this proposal and believes such an approach could minimize costs, in contrast to the *Draft Final Proposal's* replacement rule, while at the same time enhancing the fungible nature of the SCP. However, Mirant believes SCE's proposal would benefit from additional consideration of its details and implications. Accordingly, Mirant requests that the

CAISO refrain from acting on any replacement rule solution until there has been additional opportunity to consider SCE's proposal.

To allow adequate time to consider the SCE proposal, Mirant supports a delay in consideration of the *Draft Final Proposal* from March to May.