

Comments of Calpine Corporation

Mitigation for Exceptional Dispatch

Straw Proposal

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Submitted by	Company	Date Submitted
<i>Mark J Smith</i>	<i>Calpine Corporation</i>	<i>8/3/2012</i>

Summary:

As Calpine understands the proposal, it may rest on two false premises – first, that competitiveness data exists for non-modeled constraints and second, that Exceptional Dispatches (ExD) can be traced and tracked to a single constraint. Further, even when ExD can be traced, tracked and modeled, the creation of competitiveness thresholds is inherently arbitrary and will result in false-positive findings of market power. Alternatives that do not require arbitrary thresholds should be considered.

Finally, the proposed (and current) ExD mitigation process results in excessive price suppression and inefficient dampening of price signals, denying the benefits of competitive markets, which MRTU was intended to promote. These market-override consequences of ExD should be addressed through, for example, the extended LMP mechanism proposed for MISO.

Background:

Calpine understands that the DMM has identified two gaps in LMPM that arise as a result of the implementation of the RT Dynamic Competitive Path Assessment (“DCPA”) planned for the Spring of 2013. First, when pre-emptive ExDs are issued by the CAISO, those units may eliminate an otherwise binding constraint. As such, the ExD unit may not be subjected to competitiveness and market power tests. Second, the DMM has identified a need for a backstop in the case that the DCPA does not solve or fails for any reason. For each circumstance, the DMM proposes to establish administrative thresholds of competitiveness based on 60 days of prior operation.

Apparent False Premises:

First, the DMM proposal uses thresholds and historic data to evaluate whether particular constraints are competitive. The existence of historic competitiveness data presumes that the constraint is modeled in market software. If the constraint is modeled, Calpine does not understand why ExDs would ever be pre-emptively issued. Indeed, it would be Calpine's preference to let the market run in these circumstances.

However, we understand that many ExDs are the result of unmodeled constraints – for instance, when transmission outages expose deeper or different contingencies than exist in the market software. In these cases it seems that the thresholds would fail automatically – given that there simply is no data on the (unmodeled) constraint. This circumstance of automatic failure, if common, would certainly result in false-positive indications of market power and excessive mitigation.

Second, the CAISO proposal implies that every ExD has a causative relationship to a single constraint. This may or may not be true in operation, where units are ExD'd for capacity, voltage support, and or transmission constraint reasons. Calpine would appreciate further discussion of whether a one-to-one relationship for each ExD can be established.

Thresholds are Arbitrary:

DMM has suggested that constraints will be deemed competitive if congestion surfaces for some interval in each of 10 hours of the last 60 days and the constraint was found to be competitive in the DCPA (presumably based on the decomposed congestion components) in 75 percent of the congested hours. If either threshold fails, the constraint will be deemed non-competitive and the unit will be paid a mitigated price.

Calpine observes that these thresholds seem to have been arbitrarily chosen. Calpine requests that the CAISO provide data and other information on the number of constraints in the CAISO market that would pass or fail these threshold tests, based on recent data. With such data and information, the CAISO should demonstrate why these particular thresholds are appropriate indicators of when mitigation should apply.

In addition, we ask that the CAISO (in coordination with DMM and MSC) consider alternative tests that do not rest on arbitrary and contestable assumptions, as appears to be the case with the two proposed thresholds. Rather, it seems that ex-post analysis of competitiveness would eliminate the need for arbitrary ex ante thresholds. Additionally, an ex post analysis would eliminate or significantly reduce the likelihood of false-positive determinations of market power.

Calpine's concerns are heightened by the possibility that with DCPA failure, the arbitrary thresholds could be applied to ALL constraints on the system. We ask that the CAISO or DMM identify their expectation of how often such a complete failure is expected to occur.

ExD Mitigation Results in Price Suppression:

If ExD is deemed to be a necessary part of the fabric of the CAISO Tariff, Calpine urges the CAISO to modify market modeling and include the costs of these dispatches in locational prices.

According to the proposal (and similar to current practice) units that fail the competitiveness thresholds will be paid the higher of LMP or DEB. The volume from the ExD will be included in the market model as a price-taker. This has several suppressive effects on LMPs.

First, the inclusion of the unpriced volumes shifts the supply curve to the right and yields a price lower than that which would have resulted from inclusion of (even) the mitigated price in the market model. This effect is heightened by the fact that most ExD dispatches, by their nature are extra-marginal.

Second, as highlighted by the DMM, pre-emptive ExD may "have the effect of relieving the anticipated congestion such that it does not materialize in the market." MRTU contemplated that congestion that occurs in the LMP markets would send important price signals to relieve such congestion. Extra-market mechanisms such as ExD that reduce congestion dampen the very price signals that MRTU was designed to foster.

If, indeed, mitigation of ExD is approved, Calpine requests that the CAISO investigate methods of incorporating non-priced energy (such as ExD and MOC) into market prices. Other markets, such as MISO (through its extended LMP) and ERCOT, have proposed or incorporated mechanisms to include out-of-market dispatches in the formation of LMPs. The CAISO should consider appropriate incorporation in its Tariff of similar mechanisms.

Thank You