

**Mitigation for Exceptional  
Dispatch in LMPM Enhancements  
Phase 2  
Draft Final Proposal, September 4, 2012**

<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
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GenOn appreciates the opportunity to provide these comments on the CAISO's Draft Final Proposal for RT Mitigation of Exceptional Dispatch.

GenOn has no objection to reasonable measures to mitigate the exercise of market power – but this proposal fails to justify the proposed thresholds, and appears to over-reach by assuming that if exceptional dispatch is required to resolve unmodelled constraints – then there must be market power. By defaulting to a conclusion that market power exists, a significant expansion of unnecessary mitigation is likely to result.

Simply put, the evidence supporting this proposed expansion of bid mitigation is insufficient to support a conclusion that the proposal is just and reasonable. Some areas where additional explanation and evidence are necessary are provided below.

Nothing more than an opinion is offered regarding the reasonableness of the proposed thresholds. The CAISO should explain, with appropriate empirical evidence, why the 10 hour and 75% thresholds reasonably balance the tradeoff between mitigating bids when no market power exists, and failing to mitigate bids when market power does exist. In response to prior comments regarding the thresholds, the Draft Final Proposal acknowledges these concerns, but then without analysis or explanation states that the "small hour threshold" and "large but not too stringent percent threshold" are "not perfect" but "can serve the purpose well." No objective evidence justifying these thresholds has been provided – only an opinion that they are appropriate.

Regarding the non-modeled constraints, the proposed mitigation is again not based on evidence, but on an opinion. The paper states that "DMM's position on non-modeled constraints is that they are in most instances non-competitive" – without evidence or explanation. It also seems the CAISO is understating the extent of the expanded mitigation. Modeled non-competitive constraints are mitigated, but the CAISO seems to ignore the increased mitigation resulting from declaring all non-modeled constraints as non-competitive. The CAISO also concludes that "since the exceptional dispatch mitigation up to the minimum dispatchable level generation is already covered by the emergency tariff filing, the purpose of this initiative is to address mitigation for capacity starting from dispatchable minimum generation." This seems to mistakenly suggest that the CAISO never commits units to resolve unmodeled constraints.

Rather than beginning with an assertion that the non-modeled constraints are non-competitive, the CAISO should begin by providing evidence supporting its conclusion that market power exists. Out-of-market dispatch to resolve unmodeled constraints fails to provide proper price signals regarding the services needed to reliably operate the grid. If any unmodeled constraints are enforced with sufficient frequency to create the opportunity for the exercise of market power (thereby justifying mitigation) then the CAISO should make it a high priority to incorporate such constraints into its models. A plan and schedule for modeling any unmodeled constraint that the CAISO intends to label as non-competitive by default is essential to a just and reasonable proposal for expanded mitigation.

The CAISO presents a chart that suggests the category “NonTModel Other” is “only” 14% of exceptional dispatch, implying that the proposed expansion of mitigation is small. The CAISO should provide more information. For example, is 14% based on the number of exceptional dispatches, or the MWh of exceptionally dispatched energy? What percentage of unit commitments by exceptional dispatch are required to resolve unmodeled constraints?

More information supporting the proposed expansion of exceptional dispatch mitigation should be provided before this proposal is finalized. This information should include an estimate of the magnitude and frequency of the MWh and \$ impact of this proposal over some historic period. Individual market participants should also be able to see the impact on their resources over that same period.

As a final point, the CAISO needs to recognize that this proposal would represent yet another expansion of the CAISO’s authority to mitigate bids to the default energy bid. The CAISO needs to recognize that mitigated bids do not reasonably reflect the scarcity of essential reliability services on which the CAISO relies, further diminishing the relevance of CAISO market prices to forward investment decisions. The CAISO should also consider the cumulative impact of exceptional dispatch mitigation, local market power mitigation, and bid cost recovery mitigation, and consider whether “dispatchable” resources have a reasonable opportunity to recover costs and earn a return on investment. Before moving forward with this proposal, the CAISO should reconsider the definition of a “Frequently Mitigated Unit” and the magnitude of the FMU adder. Another option the CAISO should consider is to allow an additional adder in the formulation of the default energy bid to allow some return on and of investment.