Stakeholder Comments

Draft Final Proposal – Mitigation for Exceptional Dispatch in LMPM Enhancements Phase 2

Submitted by	Company	Date Submitted
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Southern California Edison (SCE) appreciates the opportunity to comment on the California Independent System Operator (CAISO) and Department of Market Monitoring (DMM) September 4 Draft Final Proposal on Mitigation for Exceptional Dispatch (ED) in Local Market Power Mitigation (LMPM) Phase 2[1].

SCE agrees with the CAISO that this important stakeholder process should address the gap in identifying and mitigating EDs that have local market power. While we agree the current system is completely inadequate and must be changed, SCE does not believe the CAISO proposal fully addresses the problem. As such, the CAISO should adopt SCE's recommendations below.

I. SCE supports the CAISO and the DMM's effort to look into the problem. However, SCE does not support the proposal, given the latest development and identified issues related to this topic.

As recognized by the Draft Final, there is "a gap in identifying and mitigating for Exceptional Dispatch that have local market power". Because most EDs are preemptive, without proper measures this will introduce a potentially material under-identification of local market power.

a. The CAISO's approach to ED is clearly flawed as evidenced by the June 22, 2011[2] and August 28, 2012[3] emergency filings as the symptoms of a serious condition on the issue.

Given the fact that EDs are needed by the CAISO due to multiple reasons other than economics, considering ED as economic only aggravates the inappropriate treatment. Within about a year, the CAISO has already made two emergency filings at the Federal Energy Regulatory Commission (FERC). The CAISO should consider the implications of such frequent filings. The need for such filings indicates that these problems may have been allowed to get aggravated when their root causes could have been remedied much earlier. Thus, a "cure-is-better-than-prevention" approach.

II. EDs should always be mitigated to higher of Default Energy Bid (DEB) or Locational Marginal Price (LMP).

EDs are noneconomic bids that do not participate in market price formation. It is inappropriate to use these bids for payment outside the market. Further, such bids were never designed for

[1] http://www.caiso.com/Documents/DraftFinalProposal-ExceptionalDispatchMitigationRealTime.pdf
[2] ER11-3856
[3] ER12-2539

payments outside the market and should not be used unless they flow through all processes of the LMP market design (including market power mitigation) before participation in LMP price formation. The CAISO's proposal allows EDs to bypass the necessary market mechanisms designed to enable a market to function. All other bids pass through market mechanism as they should. Bypassing market mechanisms does not allow the market to function as designed.

The CAISO should treat EDs based on the approach from the concurrent Bid Cost Recovery (BCR) Mitigation Measures stakeholder process. Measuring against other non market constructs, such as BCR, can help in the understanding of market versus non market treatment. For instance, in its latest proposal in the BCR Mitigation Measures stakeholder process, the CAISO states, "The ISO proposes to use a resource's default energy bid (DEB) rather than using the submitted energy bid in the bid cost recovery calculations … Since energy bid cost recovery would be based on a resource's actual costs under this proposal, rather than the submitted bid, there would no longer be an incentive for resource's to deviate to inflate bid cost recovery payments"[4].

Thus, the simple and universal rule for all ED should be that they are paid the higher of their LMP or their DEB.

III. The Draft Final proposal does not address key aspects of the issue.

a. ***The CAISO should prove that the proposed thresholds are sufficient measures.***
The CPUC stated, "CAISO does not sufficiently substantiate why they chose a 10 hours binding congestion and a 75 percent competitive threshold during the trailing 60 days. CPUC requests CAISO to show and explain why the data reasonably supports using these values"[5]. SCE also brought up such concerns in its comments[6].

One key change of the new LMPM is that all paths are deemed competitive (thus no mitigation) by default, unless tested otherwise. While it may be true that some paths were historically competitive under the old testing criteria, they may no longer be competitive under the new testing criteria, and vice versa. Moreover, the very reason the CAISO may need to issue the ED is that system conditions are abnormal and do not reflect conditions observed in the previous 60 days. In these instances the proposal provides no protection against abuse.

b. ***The CAISO proposes to include noneconomic supply in a market state determination – a serious error.***
SCE presented an alternative of excluding ED supply from Dynamic Competitive Path Assessment (DCPA), proposed the alternative in detail with an example in its prior comments.

While the CAISO correctly acknowledges that "this [ED] energy is dispatched outside of the market", it fails to treat the ED energy as such for the mitigation purpose, by stating that, "Removing ExD unit capacity from the DCPA would decrease the extent to which the DCPA results reflect actual market conditions".

Such a contradiction is not supportable by economics. Non market supply does not contain any information relevant to the market. Any conclusive information from mixing

[4] Page 7, http://www.caiso.com/Documents/RevisedDraftFinalProposal-BidCostRecoveryMitigationMeasures.pdf
[5] http://www.caiso.com/Documents/CPUC-CommentsExceptionalDispatchMitigationRealTime-StrawProposal.pdf
[6] http://www.caiso.com/Documents/SCE-CommentsExceptionalDispatchMitigationRealTime-StrawProposal.pdf

non market and market information would only be relevant to a non market framework – not a competitive market.

Simply put, the CAISO should exclude the ED units/energy from the market power runs. This ensures that the addition of the non-market ED energy does not undermine the in-market process of the market power runs.

IV. At a minimum, the CAISO proposal must actually try to address the ED problem.

SCE may consider a workable proposal if the CAISO:

- ***a.*** Commits to Real Time testing of paths to determine competitiveness.
- ***b.*** Moves on from its reliance on outdated historical information and unsubstantiated thresholds.
- ***c.*** Mitigates all units in case of non competitive determination on a path.
- ***d.*** Exclude ED supply from the counterflow calculation in the DCPA process as ED supply is dispatched out of the market.
- ***e.*** Any presumption of competitiveness is improper.

Performing any less than the above minimum risks another emergency filing and serious economic harm, much of which is several times the magnitude of the estimates of direct costs. ED should be acknowledged as a transaction that is solved *outside* of the market, and at no time should bids designed to be used inside the market be used to price ED energy. The universal rule for all ED should be they are paid the higher of their LMP or their DEB. Otherwise, we expect additional market power rents will continue to be extracted under the ED structure.