Supplement to Exceptional Dispatch White Paper

Based on stakeholder comments and further internal review the California ISO (CAISO) requests that stakeholders provide comments on the proposed option to limit mitigation of Bids for Exceptional Dispatch to resources with capacity contracts or designations (i.e., resources with a Resource Adequacy contract, a Reliability Must-Run (RMR) contract, or an Interim Capacity Procurement Mechanism (ICPM) designation) as described in section 5.1 of the Exceptional Dispatch white paper posted at: http://www.caiso.com/1f91/1f91cdbd12f0.pdf and further described below.

On March 21, 2008, CAISO posted a White Paper on "Exceptional Dispatch: Options for Market Power Mitigation and Supplemental Pricing." That was followed by a stakeholder conference call on Friday, March 28, 2008. In the paper and on the conference call, CAISO asked for stakeholder views on the proposal to apply market power mitigation to all resources subject to Exceptional Dispatch and two options for providing supplemental payments to generation resources without capacity contracts or designations - whether under Resource Adequacy (RA), Interim Capacity Procurement Mechanism (ICPM) or Reliability Must Run (RMR). The supplemental payments are intended as a contribution to recovery of fixed costs for the latter type of resources when they respond to reliability Exceptional Dispatches but are also subject to market power mitigation.

In Section 5.1 of the paper, CAISO also discussed a third option, which was to apply mitigation only to resources with capacity contracts or designations. That is, resources with an RA, RMR or ICPM contract or designation would be subject to mitigation, while resources without such contracts or designations would not. In addition, there would be no supplemental payments to the latter type of resources towards fixed cost recovery. CAISO suggested that this approach should be rejected due to uncertainty over the frequency of Exceptional Dispatch of resources without capacity contracts and the incentives that this might create for accepting ICPM designations.

Upon further internal review, and in response to stakeholder concerns about the supplemental payment approach, CAISO wants to re-open this option for stakeholder consideration. This option has the advantages of administrative simplicity and avoiding some of the design and implementation issues associated with making supplemental out-of-market payments. On the other hand there is a difficult to quantify risk that a resource may occasionally get paid at a much higher price, up to the offer cap, than the prevailing locational marginal prices (LMPs). CAISO seeks stakeholder views on this option along with the options for mitigation with supplemental payments in Section 5.2 and any other comments on the Exceptional Dispatch paper.

In their comments on this third option, CAISO also seeks stakeholder views on measures that could establish the appropriate incentives to accept ICPM designation rather than decline. The CAISO observes that a resource that could be paid up to the offer cap for Exceptional Dispatch without mitigation might prefer not to take an ICPM designation that would subject it to mitigation. One simple rule would be that any resource that is offered an ICPM designation and rejects that designation would subsequently be subject to mitigation under Exceptional Dispatch.

If CAISO was to pursue this option, it would be subject to ongoing monitoring and review by the DMM, after MRTU has been implemented and potential reconsideration by the CAISO of whether to file for approval from FERC to modify the Tariff so to apply market power mitigation to all resources.

The original White Paper is located at:
http://caiso.com/1c89/1c89d76950e00.html. Comments are due by April 4, 2008.