Decision on Exceptional Dispatch

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California ISO
Your Link to Power

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Need Board approval for new pricing rules for Exceptional Dispatch under MRTU

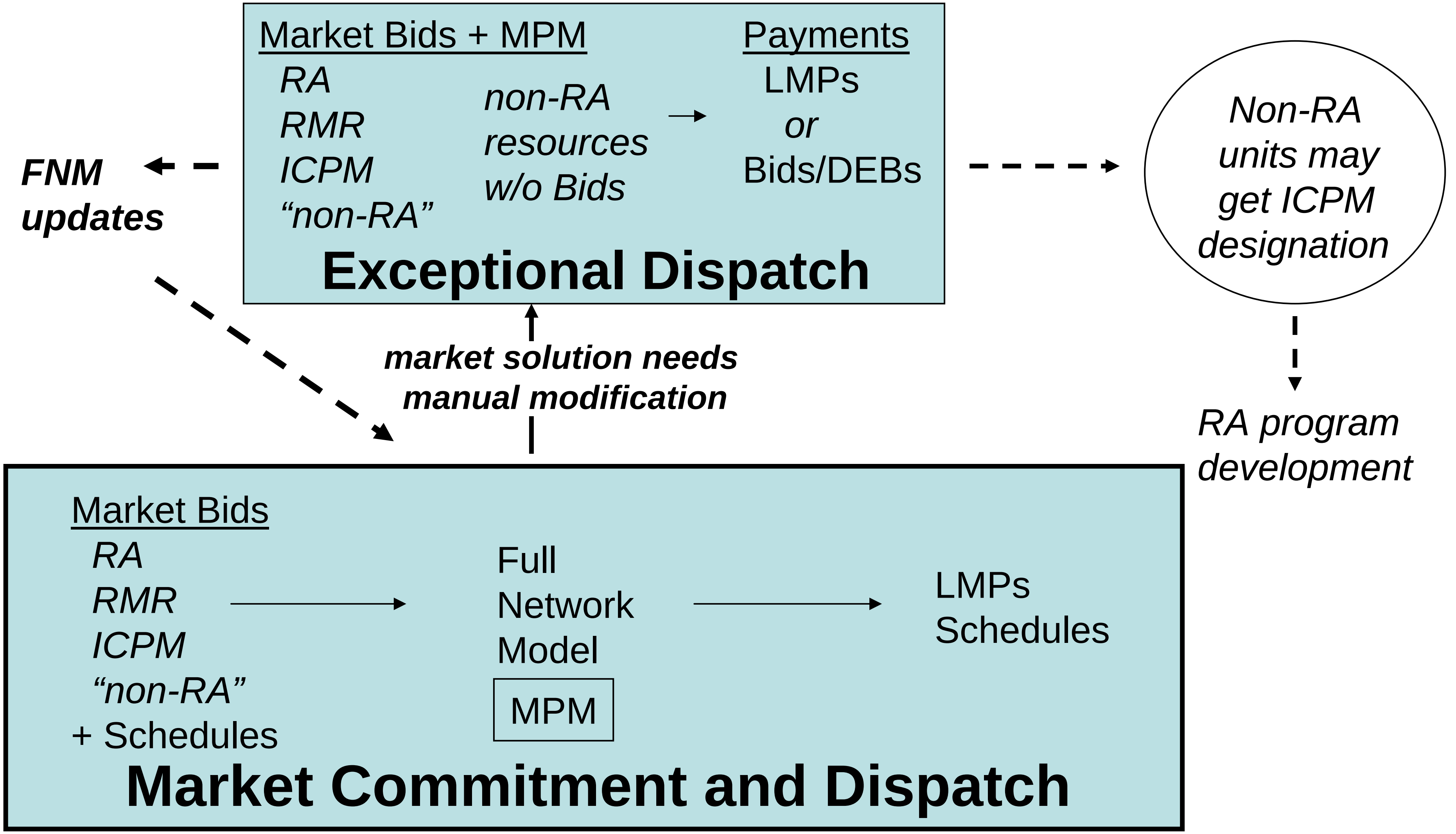
- Proposed changes to pricing rules to
  - mitigate bids for all suppliers under specific conditions
  - loosen or “relax” bid mitigation for non-RA resources
- Proposed rules subject to extensive stakeholder process
- CAISO proposal
  - considers all stakeholder views
  - consistent with other market mechanisms

Issues with existing rules for Exceptional Dispatch pricing required resolution

- CAISO has authority to undertake Exceptional Dispatch
  - manual action taken by grid operators to address a system or local reliability issue that is not resolved through the market software

- However, in recent months, several issues were raised:
  - uncertainty about frequency and predictability of Exceptional Dispatch, especially at start-up
  - lack of market power mitigation
  - disincentives for resources to accept Interim Capacity Procurement Mechanism (ICPM) designations

Exceptional Dispatch will be minimized over time by updating market models and clarifying interaction with ICPM and RA program



All bids will be subject to mitigation in specific circumstances

- Proposed mitigation would *not* apply to Exceptional Dispatches for:
  - system-wide energy requirements
  - congestion relief on competitive transmission constraints

- Proposed mitigation to Default Energy Bid (DEB) would apply to Exceptional Dispatches specifically for:
  - reliability requirements associated with non-competitive transmission constraints
  - ramping units up to minimum dispatchable levels for contingencies not in MRTU software
  - other special unit operating or environmental constraints not incorporated in MRTU model

Non-RA resources will be subject to “relaxed” mitigation

- Non-RA Resources (i.e., without RA, RMR, or ICPM status) should get opportunity to recover fixed costs when mitigated
  - several options were considered

- Under “relaxed” mitigation, market bid will not be mitigated until resource accrues supplemental revenues up to monthly revenue cap
  - supplemental revenues are defined as revenue accruing over DEB
  - supplemental revenue cap equal to ICPM monthly rate, which creates incentive to accept ICPM designation

- After supplemental revenue cap reached, bid subject to mitigation for remainder of 30 day period

The proposed rules include a market start safeguard and a sunset date

- First 2 months: supplemental revenue through bid adder
  - payment is higher of LMP or DEB + $24/MWh
  - supplemental revenue cap equal to ICPM monthly rate
- Beginning of 3rd month: start relaxed mitigation
- Sunset date: December 2010, consistent with ICPM sunset date

This final proposal considers stakeholder views

- Non-RA resources are eligible for supplemental revenues when mitigated
  - relaxed mitigation after two months
  - may be financially equivalent to ICPM designation over 30 day period; occasionally higher when immediately followed by ICPM designation
- Buyers are protected through bid mitigation and supplemental revenue cap
  - market start safeguard
  - even with relaxed mitigation, resources may “compete” with other suppliers for Exceptional Dispatch
  - suppliers have incentive to accept ICPM designation