Stakeholder Process: Exceptional Dispatch

Summary of Submitted Comments

Stakeholders submitted two rounds of written comments to the CAISO on the following dates:

- Round One, 04/04/08
- Round Two, 04/24/08

Stakeholder comments are posted at: http://www.caiso.com/1c89/1c89d76950e00.html

Other stakeholder efforts include:

- 03/28/08 Conference Call on Issue Paper
- 04/11/08 MSC Stakeholder Meeting
- 04/15/08 Stakeholder Meeting on Straw Proposal
- 04/17/08 MSC Conference Call – Continuation of discussion from 4/11/08 meeting
- 05/06/08 MSC Conference Call – Adoption of a formal opinion supporting Management recommendation

The attached matrix only summarizes comments on the supplemental payment options. As noted in the Board Memo, the issue of mitigation under Exceptional Dispatch (ED) was debated extensively during the DMM stakeholder process at the end of 2007 and the mitigation proposal has support from the MSC. As the MSC stated in their opinion letter "we believe that it [the mitigation] is consistent with the FERC policy for the ISO to subject ED offers to local market power mitigation". Management supports the DMM mitigation proposal.

NOTE: the comments in this matrix do not include stakeholder concerns about aspects of the mitigation proposal regarding total compensation. Notably, WPTF and Reliant raised concerns that units subject to Exceptional Dispatch "have the opportunity to receive an additional payment to compensate for the extra costs incurred above the ED-mitigated level to supply Exceptional Dispatch service, such as intra-day gas costs, local distribution company ("LDC") and pipeline gas imbalance charges, any gas scheduling penalties and any charges for LDC firm access rights" (Reliant comments). They argue that such costs are not reflected in the DEB. Management does not necessarily disagree with this argument if it can be demonstrated empirically, but argues that this issue has been decided in prior FERC orders, and is outside the scope of the present process.

Management Proposal	Load Serving Entities and CPUC	Resource Owners and WPTF	Management Response
Straw Proposal – Bid Adder Option This proposal for supplemental pricing to augment mitigation would apply the current Frequently Mitigated Unit (FMU) Bid Adder to any Bids mitigated to DEB. Payments, on incremental energy above Pmin, would be the higher of LMP or DEB + $24. Resources would be able to collect the $24/MWh payment up to the ICPM monthly cap amount. Subsequent to accruing the revenue cap, they would be subject to mitigation for the balance of the month and paid the higher of LMP or DEB.	<u>CDWR/SWP: Conditional</u> CAISO should not allow revenue from ED and ICPM to overlap. Proposes that Bid Adder only be applied to DEB not LMP <u>CPUC: Support</u> Suggest that cap should be lower than ICPM payment. <u>PG&E: Support</u> General comment from PG&E is that CAISO has not provided any evidence or justification that resources are not receiving sufficient revenues through other CAISO markets and does not support any additional payment. But if one of the options were to be chosen from the Straw Proposal they would support the Bid Adder option. <u>SCE: Support</u> SCE supports the mitigation proposal and the application of the Bid Adder option up to the cap of the monthly ICPM payment. <u>Six Cities: Support</u> Six Cities supports the Bid Adder option at the proposed level of $24/MWh.	<u>Calpine (comments from initial Issues Paper, no comments sent in on Straw Proposal): Oppose</u> "Uncontracted capacity that is required for ED purposes serves as a capacity product and should be fully compensated at a rate equivalent to that of other capacity products. The need for price caps is predicated on the notion that generators will have market power in some situations where ED is required. Calpine believes that existing price mitigation in MRTU is sufficient to address this concern" <u>Dynegy: Oppose</u> The Bid Adder provides some compensation for a resource taken through mitigated ED "but is a far inferior solution to treating capacity service as capacity service and providing that capacity with suitable longer-term compensation." That is, a single Exceptional Dispatch should lead to an ICPM designation. <u>Reliant Energy: Oppose</u> Reliant has a general concern with both options, which neither option is sufficient to cover the costs incurred by a resource in responding to the Exceptional Dispatch, with the exception of one scenario under the Relaxed Mitigation option, in which they state that a resource could earn net revenues for a month of $198, 117. <u>WPTF: Oppose</u> In general, WPTF does not believe that the proposed mitigation is appropriate for ED and hence does not support supplemental payments developed on the basis of the proposed mitigation. WPTF states that the CAISO should "procure the products in the market that it requires to meet its reliability needs rather than relying on out-of-market mechanisms." WPTF further recommends that CAISO explore further when to offer an ICPM designation in response to an Exceptional Dispatch.	Management concluded that this option does not strike the proper balance between the two stakeholder groups on the issue of supplemental payments. Notably, under this approach in at least some circumstances it will take much longer to accrue the equivalent of the ICPM payment, even though a resource may be providing reliability benefit, through the out of market commitment and dispatch, to the CAISO markets. Hence, as discussed below, Management has determined to recommend the Relaxed Mitigation option.

Management Proposal	Load Serving Entities and CPUC	Resource Owners and WPTF	Management Response
Straw Proposal – Relaxed Mitigation Option This option would apply all mitigation rules to RA/RMR/ICPM resources but allow resources without such capacity contracts or designations to submit bids and receive ED payments above their DEB or the LMP up to the ICPM monthly cap. Subsequent to accruing the revenue cap, they would be subject to mitigation for the balance of the month and paid the higher of LMP or DEB.	CDWR/SWP: Conditional Concerned about suppliers being able to submit very high bids under ED. Re-emphasized that CAISO should not allow revenue from ED and ICPM to overlap. CPUC: Oppose overall, but supports certain features Generators are able to exercise market power until the ICPM cap is reached. Proposes a "claw back mechanism" such that if an entity declines an ICPM designation, gets an ED and ultimately accepts ICPM then the total revenues should not exceed the ICPM monthly payment for any month. "Though CPUC staff strictly prefers the bid adder option over the relaxed mitigation option, the idea of a cap makes both options more palatable. However, CAISO must implement mechanisms that will not increase the probability that a generator will not forgo RA contracts or ICPM designations." PG&E: Oppose Believes this option provides an opportunity for ED resources to reach the proposed ICPM cap too quickly, possibly within several hours, and could adversely impact acceptance of ICPM designation. This approach would reward local market power. SCE: Oppose SCE does not support the Relaxed Mitigation option since it allows an non-RA/RMR/ICPM resource to receive its unmitigated bid price until the monthly ICPM payment cap is met. Six Cities: Oppose The Relaxed Mitigation option would seem to permit the exercise of market power and the ability for suppliers to collect "unreasonably high revenues, especially in conjunction with the potential for designation and compensation under the ICPM proposal."	Calpine (comments from initial Issues Paper, no comments sent in on Straw Proposal): Oppose Same as above. Dynegy: Oppose Dynegy's position is that a resource that is Exceptionally Dispatched should have been provided an ICPM designation. Dynegy also contests the proposed ICPM rate. Reliant Energy: Oppose, but observed that relaxed mitigation can address some concerns about revenue sufficiency under ED. Believes this option is an improvement over the Bid Adder but is still not sufficient to resolve the problems created by mitigating ED bids. Reliant did provide a third option, which would be to link ICPM designation to a single ED and to allow all resources the ability to be compensated for all actual verifiable gas costs incurred to respond to an ED. WPTF: Oppose See general comments above.	Management proposes that the mitigation rules are augmented with the Relaxed Mitigation option for units without RA, RMR or ICPM contracts or designations. Although resource owners do not support this approach, it clearly provides a higher revenue stream than the Bid Adder and will still be subject to the ICPM monthly revenue cap. The Relaxed Mitigation will come close in some Exceptional Dispatches to providing a monthly ICPM payment in a short period, perhaps as little as 7-8 hours of Exceptional Dispatch. This will take place when there are few or no competing resources to provide Exceptional Dispatch and thus is reflective of the real need for a particular unit. Hence, it meets some of the concerns of resource owners. In other circumstances, when there are multiple units that can provide Exceptional Dispatch, Bids will allow for some level of market competition and will appropriately reduce the supplemental payment to reflect market value. In addition, in response to some resource owners that contest the ICPM rate as filed, Management notes that the final ICPM rate will reflect FERC's decision on the appropriate price for backstop capacity. This proposal does not pre-judge that FERC decision. While LSEs and the CPUC are not fully supportive of this option either, the application of the ICPM monthly payment revenue cap protects buyers against excessive payments due to the market power of certain units under Exceptional Dispatch. Hence, Management believes that this proposal appropriately balances the interests of stakeholders.