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RE: Comments on Mitigation Rule for Exceptional Dispatches Under MRTU

DATE: January 14, 2008

Introduction

The CPUC submits the following comments in response to the stakeholder call held on January 7, 2008.

The CPUC generally supports the DMM's proposed mitigation rule for Exceptional Dispatches. The CPUC believes that the DMM has identified an important area where the potential for exercise of market power, though limited, could exist. However, the CPUC echoes the concerns raised by some stakeholders on the call that the proposed pricing could create an incentive for suppliers not to participate in the RA capacity market and/or the ICPM backstop. CPUC staff suggests in these comments that the CAISO may need to consider a different approach to the mitigated Exceptional Dispatch pricing, that further removes incentives for market participants to want to be called under Exceptional Dispatch.

As DMM explained on the January 7th call, the CAISO can call upon a resource under the Exceptional Dispatch rule when, because of limitations in the MRTU software, all reliability requirements are not met. Under the mitigated Exceptional Dispatch provision proposed by DMM, the CAISO would pay either the Default Energy Bid (DEB) for the unit, or the LMP, whichever is higher. (The Exceptional Dispatch provision originally proposed to pay either the Bid Price or the LMP price, whichever is higher.)

Potential Problems with the Exceptional Dispatch Provision

CPUC staff is concerned that even under the proposed mitigation rule, there could be situations where the price paid for Exceptional Dispatches is more attractive than that paid under ICPM, or for RA contracts. This could cause market participants to engage in physical or economic withholding if they believe they may be called via the Exceptional Dispatch. The DMM stated on the January 7th call that participation in ICPM backstop is voluntary, therefore, there is no relationship between Exceptional Dispatch, which is mandatory, and ICPM. CPUC staff is concerned, however, that given the voluntary nature of ICPM, some generators could opt not to participate in the ICPM backstop process, if they believe they can earn more under an Exceptional Dispatch scenario.

Similarly, although suppliers are contractually bound to meet their RA commitments to the IOUs under the RA program, the CPUC would not want an Exceptional Dispatch price that, over time, lures suppliers away from making long-term RA commitments, because they can get paid more for energy in the spot market, including possibly, through Exceptional Dispatches.

CPUC staff believes the Exceptional Dispatch should be something that market participants must provide only when necessary; not something that market participants might want to provide for financial gain. Therefore, CPUC staff believes it is beneficial to remove all financial incentives to market participants under Exceptional Dispatch, by offering only cost-based pricing as the mitigation rule.

We are also concerned that market participants could find a way to intentionally trigger Exceptional Dispatch. For example, market participants may be able to manipulate the MRTU software through bid submissions, creating a situation where the need for Exceptional Dispatches is more likely to occur. Market participants will have repeated opportunities to input their bids into the CAISO system, and they may well devise or discover a method to ensure Exceptional Dispatch is called.

Recommendation

CPUC staff believes that DMM's mitigation rule is needed, but may not go far enough. Staff suggests that one way to avoid incentives for generators to withhold in energy and capacity markets would be a price for Exceptional Dispatch that matched the costs of being Exceptionally Dispatched. The CPUC recommends that the CAISO change the pricing for mitigated Exceptional Dispatches from the current proposal of either the DEB or LMP price, to the DEB cost-based payment option only. Setting the payment at the level of costs would make generators indifferent to being called, or not being called for Exceptional Dispatch.