UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	**)** **)**	**Docket Nos. ER08-1178-000 and EL08-88-000**

MOTION FOR LEAVE TO FILE ANSWER OUT OF TIME AND ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO REPLY COMMENTS REGARDING TECHNICAL CONFERENCE

Pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213, the California Independent System Operator Corporation ("CAISO") hereby submits a motion for leave to file out-of-time, and files, an Answer to the Reply Comments submitted in this proceeding. The Reply Comments[1] were submitted pursuant to procedures established at the November 6, 2008 Technical Conference convened in this proceeding by the Commission Staff and the notice of extension of time issued by the Commission on November 26, 2008.[2]

I. MOTION FOR LEAVE TO FILE ANSWER OUT OF TIME

Pursuant to Rule 213(d) of the Commission's Rules, 18 C.F.R. § 385.213(d), the CAISO respectfully requests the Commission to accept this

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[1] The following parties other than the CAISO filed Reply Comments: California Department of Resources State Water Project ("SWP"); Calpine Corporation ("Calpine"); Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California ("Six Cities"); Dynegy Morro Bay, LLC, and Dynegy Moss Landing, LLC, J.P. Morgan Ventures Energy Corporation and BE CA LLC (together, "J.P. Morgan"); Northern California Power Agency ("NCPA"); Pacific Gas and Electric Company ("PG&E"); Reliant Energy, Inc. ("Reliant"); Southern California Edison Company ("SCE"); and Western Power Trading Forum ("WPTF"). Unless otherwise noted, citations in this Answer are to Reply Comments.

[2] Capitalized terms not otherwise defined herein are defined in Appendix A to the CAISO's Market Redesign and Technology Upgrade ("MRTU") Tariff.

Answer filed out-of-time. The CAISO did not submit the Answer sooner due to the unavailability during the December holidays of CAISO personnel from several business units who were responsible for reviewing it. Commission acceptance is appropriate because, by clarifying the CAISO's proposal, the Answer will assist the Commission in its decision-making process and its acceptance will not cause any undue prejudice or delay in this proceeding.[3]

II. BACKGROUND AND SUMMARY

In its initial Comments in this proceeding, the CAISO set forth its positions on the issues discussed at the Technical Conference,[4] discussed its authority to issue Exceptional Dispatches in the event of a Market Disruption, explained how the CAISO's proposal to employ a $24/MWh bid adder approach for the first four months after MRTU go-live can be used with the revised Exceptional Dispatch pricing proposal that the CAISO included in its Comments, and described the features of that revised pricing proposal, which provides compensation to eligible resources (resources that do not have a Resource Adequacy ("RA") contract, a Reliability Must-Run ("RMR") contract, or an Interim Capacity Procurement Mechanism ("ICPM") designation) triggered by certain Exceptional Dispatches.

In its Reply Comments, the CAISO responded to arguments and concerns expressed by other parties regarding the types of Exceptional Dispatch that

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[3] *See, e.g.*, *San Diego Gas & Electric Co., et al.*, 120 FERC ¶ 61,201, at P 9 (2007); *California Independent System Operator Corp.*, 125 FERC ¶ 61,055, at PP 18-19 (2008).

[4] The Technical Conference addressed issues raised by the CAISO's Exceptional Dispatch proposal that was filed in this proceeding on June 27, 2008 ("June 27 Filing"). Specifically, the Technical Conference addressed the following issues: (1) the CAISO's Exceptional Dispatch pricing proposal and the alternative proposal contained in the Commission's October 16, 2008, Order on the June 27 Filing, *California Independent System Operator Corp.*, 125 FERC ¶ 61,055 (2008) ("October 16 Order"); (2) the frequency of Exceptional Dispatch; (3) modeling and software limitations; and (4) the scope of the CAISO's Exceptional Dispatch Bid mitigation proposal.

should necessitate the offer of an ICPM designation or Supplemental Revenues, the treatment of Participating Loads, partial unit ICPM designations, the need for new Ancillary services products, the cap on Supplemental Revenues, and Market Power Mitigation.

Upon review of the Reply Comments submitted by other parties, the CAISO is concerned that there may be some remaining confusion about its Exceptional Dispatch proposal. The CAISO is filing this Answer in an effort to dispel any remaining confusion.

III. ANSWER

The various Reply Comments suggest that the CAISO has not adequately explained each of the elements of its proposal. The CAISO therefore offers this further discussion of its proposal for compensating units that receive Exceptional Dispatches and responds to certain portions of the Reply Comments. For the purpose of this discussion, the CAISO will refer to such compensation—either the Supplemental Revenues option or the ICPM designation option—as "Exceptional Dispatch Compensation." In addition, a summary explanation of the proposal is attached in Table 1 for easy reference.

A. Nature of Exceptional Dispatch Compensation

1. The Proposal

Under the CAISO proposal, eligible resources would have two options to receive Exceptional Dispatch Compensation: (a) an ICPM designation for 30 days; or (b) a Bid-based supplemental revenue payment ("Supplemental

Revenues") calculated according to the pricing rules contained in the CAISO's June 27 filing in Docket No. ER08-1178.[5]

2. Discussion

The two methods of Exceptional Dispatch Compensation differ in both the payment entitlements and the performance obligations. They each will likely lead to different Exceptional Dispatch Compensation payments according to market circumstances as well as eligibility for other market-based payments, such as the ability to submit non-zero availability Bids into the RUC process and receive RUC Awards.

The ICPM designation under Exceptional Dispatch, if accepted, implicates all the obligations imposed on ICPM capacity under Section 43 of the MRTU Tariff. These include a must-offer obligation in the Integrated Forward Market for Energy and Ancillary Services and the requirement to submit zero value availability Bids into the Residual Unit Commitment process for all ICPM MW. In addition, the MW under the ICPM designation would be subject to the proposed market power mitigation rules for RA resources under Exceptional Dispatch, *i.e.* ICPM-designated MW would not be eligible for Supplemental Revenues. In contrast, the Bid-based Supplemental Revenues method does not establish any additional bidding or scheduling obligations or restrictions, except for the requirement that Exceptional Dispatch Bids are subject to the proposed market power mitigation rules once the Supplemental Revenue cap (discussed below) is reached.

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[5] The CAISO will not fully review here all the pricing and settlement rules for the Bid-based Supplemental Revenues method, which are found in the June 27 filing, but does compare that component of the revised proposal with the ICPM designation method

Only the ICPM method provides a guaranteed minimum level of compensation towards fixed cost for the designated MW. Total compensation from Bid-based Supplement Revenues, in contrast, can vary because of two factors: first, a resource does not receive Supplemental Revenues unless the CAISO dispatches the resource above PMin; second, the Bid prices that the resource submits are voluntary and could range between the unit's variable cost and the Bid cap. Nonetheless, total Exceptional Dispatch Compensation under the Bid-based Supplemental Revenues could be higher than under the ICPM method because the Supplemental Revenue cap is calculated on the basis of total non-RA MW, whereas the ICPM designations are calculated on the basis of MW committed and incrementally dispatched through Exceptional Dispatch, subject to certain exceptions, by the CAISO. Resources would voluntarily elect one of the two pricing options in light of these considerations.

B. Resource Eligibility for Exceptional Dispatch Compensation and Election of a Payment Method

1. The Proposal

Only resources that do not have a RA contract, an RMR contract, or an ICPM designation for their full capacity are eligible for Exceptional Dispatch Compensation.[6] Eligible resources would be required to indicate their preferred compensation method seven days in advance of the first day of each calendar month. If a resource opting for an ICPM designation receives such a designation during that calendar month, the resource would not be able to choose the

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[6] For ease of reference, in both the CAISO's Comments and these Reply Comments the phrase "non-RA resource" or "non-RA unit" is used to mean a resource or unit that is non-RA, non-RMR, and non-ICPM.

supplemental revenues option for any subsequent Exceptional Dispatches during the 30-day designation. If a resource has elected supplemental revenues for a particular month and receives them due to an Exceptional Dispatch, the resource will not be eligible to choose the ICPM designation option for any additional Exceptional Dispatches during the 30 days following the exceptional dispatch.[7] (The resource could, however, receive an ICPM designation in accordance with Section 43, based on a Significant Event or if there is inadequate Resource Adequacy capacity.) If no election is made, the resource will be treated as having selected the ICPM-designation option.

2. Discussion

No party has objected to the proposed resource eligibility criteria or procedures for selecting an Exceptional Dispatch Compensation option. The monthly selection requirement simplifies the administration and settlement of the Exceptional Dispatch Compensation program. Yet it still allows resources considerable flexibility in choosing compensation. For example, consider a resource that opted for an ICPM designation for the month of June, and received an Exceptional Dispatch on June 15. On June 24, it opted for Supplemental

[7] In its Reply Comments, the CAISO clarified the results of the resource accepting a Significant Event ICPM designation during any 30-day period triggered by an Exceptional Dispatch. If a resource had elected an ICPM designation for a 30-day period, and if the resource subsequently accepts an ICPM Significant Event designation during the 30-day period, the Significant Event designation would trigger a new 30-day period for the designated capacity. If the level of capacity of the prior ICPM designation exceeded the Significant Event designation, the resource would be eligible for the ICPM compensation for the balance of the original 30-day period. If the resource had elected supplemental revenues and if the resource subsequently accepts an ICPM Significant Event designation during the 30-day period, the Significant Event designation would trigger a new 30-day period for the designated capacity and terminate the payment of supplemental revenues. Moreover, as per the double payment rule described in the CAISO's Comments and below in these Reply Comments, the ICPM payment may have to be adjusted also to ensure that the sum of supplemental revenues and ICPM revenues for the 30-day period do not exceed an ICPM payment.

Revenues for the month of July. If it was exceptionally dispatched to a higher output on July 10, its only option would be an ICPM designation at the higher level. If instead it received an Exceptional Dispatch on July 17, however, it would receive Supplemental Revenues.

C. Types of Exceptional Dispatches Eligible for Exceptional Dispatch Compensation

1. The Proposal

Only certain types of Exceptional Dispatch would entitle a resource to Exceptional Dispatch Compensation. For the purposes of this discussion, the CAISO will use the term "Incremental Energy" to refer to dispatches of energy above PMin. The following Exceptional Dispatches qualify for Exceptional Dispatch Compensation: (a) any Exceptional Dispatch *commitment* of a non-RA unit (subject to the limitations on eligibility for Supplemental Revenues described in the CAISO's June 27 filing[8]); and (b) any Exceptional Dispatch for Incremental Energy (other than the exceptions noted below) that moves an eligible resource beyond the greater of its Self-Schedule amount or market-based commitment/dispatch level and partial RA or ICPM capacity obligation.

The following Exceptional Dispatches would not qualify a unit for Exceptional Dispatch Compensation: (a) an Exceptional Dispatch for decommitment or decremental energy; and (b) an Exceptional Dispatch issued in circumstances where the resource's Market Schedule has to be adjusted for reasons unrelated to the CAISO's reliability needs (*e.g.*, when CAISO operators

[8] In particular, a resource with no Energy Bid in the particular market associated with the Exception Dispatch would not be eligible for Supplemental Revenues in connection with that market. The resource could become eligible for Supplemental Revenues by bidding into subsequent markets.

have to move and possibly hold a resource either above or below a Forbidden Operating Region based on Market Schedules or Self-Schedules in subsequent periods while the Real-Time Market software is trying to move the resource to a point within the resource's Forbidden Operating Region in addition to Ancillary Services, precommercial operation, and PMax testing), though under proposed MRTU Tariff section 39.10, such a resource would still be subject to Bid mitigation due to the potential for adjusting Bids to reflect Exceptional Dispatches for Incremental Energy. Another way of describing the second exception is when the CAISO is using Exceptional Dispatch to manage dispatch of voluntarily submitted bids in a manner beyond the capability of the CAISO's software or to accommodate resource testing.[9]

2. Discussion

Only one party has opposed the proposed exceptions to eligibility for Exceptional Dispatch Compensation. Calpine believes that an ICPM designation is appropriate when the CAISO dispatches a unit through its Forbidden Operating Zone in order to reach a stable operating level.[10] The CAISO believes an ICPM designation for such Exceptional Dispatch would go beyond the Commission's purpose in establishing this proceeding, *i.e.,* to ensure that generators are properly compensated for capacity the CAISO uses. In circumstances such as those cited by Calpine, the CAISO is only managing the dispatch of voluntarily

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[9] *See* Dynegy at 2.
[10] Calpine at 6.

submitted bids that cannot be automatically managed because of software limitations. Other generators have recognized this exception as appropriate.[11]

D. Bidding Requirement to be Eligible for Exceptional Dispatch Compensation

1. The Proposal

The CAISO proposes that eligible resources must have a bid in the CAISO's markets at the time of the Exceptional Dispatch in order to receive Bid-based Supplemental Revenues. That Bid would be used to generate the Supplemental Revenues until the revenue cap was reached (after which the resource's Default Energy Bid would be used if it was higher than the LMP). Resources that elect ICPM designations, however, will *not* be required to submit Bids for at least the initial commitment and dispatch. Thereafter, the resource will be required to submit bids up to the level of ICPM designation.

2. Discussion

Although the CAISO's Department of Market Monitoring ("DMM") recommends otherwise, the CAISO – contrary to the misunderstanding of such parties as WPTF[12] – has chosen *not* to require that a resource have an outstanding Energy Bid in order to qualify for Exceptional Dispatch Compensation under the ICPM designation approach. Several parties, however, including WPTF, have contested the proposal in the CAISO Comments to have a bidding requirement to be eligible for Exceptional Dispatch Compensation of either type.

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11 *See* Dynegy at 2.
12 WPTF at 12.

Despite opposition of parties such as WPTF,[13] the CAISO continues to believe that the existence of an outstanding Energy Bid is an appropriate prerequisite to eligibility for Supplemental Revenues, which are generated from Bid price offers voluntarily submitted by market participants. This option does not create an offer requirement *per se*. Rather, the eligibility for Supplemental Revenues is simply dependent on the submission of Bids. In principle, the original concept of Bid-based Supplemental Revenues allowed for the possibility that there could be some competition for providing such Exceptional Dispatch capacity and that such competition could be reflected in Bids (similarly to the principle underlying the RUC Availability Bid). If it appeared that there was more than one generator that could provide such capacity, then the Bids could be used by system operators to find a least cost solution. While CAISO has found that this type of comparison of Bids will be difficult under some real-time situations, especially at the start of MRTU, it may be possible with further software development.

WPTF's effort to compare this requirement with the Must-Offer obligation under the current tariff is misplaced. As noted above, there is no requirement to submit bids. Rather, the Bid prerequisite for Supplemental Revenues simply represents a quid pro quo. If a resource desires relief from the impact of CAISO measures to mitigate market power--which applies to Bids--then it must do its part, by bidding into the market. If a resource fails to submit a Bid into the markets in time for an Exceptional Dispatch, it could then submit a Bid into the next eligible market opportunity and the CAISO would use that Bid for

[13] WPTF at 12.

Supplemental Revenue pricing. As a result, the impact of the Bid requirement should be minimal.

In contrast, a similar rule making ICPM awards contingent on having a Bid in the markets would provide significant negative consequences for the failure to fulfill the bid prerequisite, *i.e.,* ineligibility for the ICPM designation. Because the CAISO agrees with the DMM that non-RA resources will in some circumstances (to a degree that will remain uncertain until MRTU commences) choose to withhold Bids or Self-Schedules into the CAISO Markets if they believe that there is a sufficient likelihood that the CAISO will commit them through Exceptional Dispatch, the CAISO had nonetheless originally considered a Bid requirement for ICPM designations. The Commission staff's views and other comments at the Technical Conference, however, have persuaded the CAISO that, on balance, it should not propose a Bid requirement. With the two compensation options available – the Supplemental Revenues option that does not impose an offer obligation but nevertheless makes Exceptional Dispatch Compensation contingent upon submission of Bids, on the one hand, and the ICPM option that imposes an offer obligation on the designated ICPM level but does not impose a Bid obligation on eligibility for incremental ICPM designations, on the other hand – resources owners have the ability to manage their resources' availability that is far more flexible than under today's Must Offer obligation.

E. Quantity of Capacity Designated for ICPM

1. The Proposal

The CAISO has proposed that an initial ICPM designation that a unit receives as a result of an Exceptional Dispatch be the sum of PMin and any Incremental Energy included in the Exceptional Dispatch or a subsequent Exceptional Dispatch. An initial ICPM designation due to an Exceptional Dispatch for Incremental Energy that moves an eligible resource beyond the greater of its Self-Scheduled amount or market-based commitment/dispatch level and any partial RA or ICPM capacity obligation would be the amount by which the Exceptional Dispatch exceeded the greater of its Self-Scheduled amount or market-based commitment/dispatch level and any partial RA or ICPM capacity obligation, but never less than PMin minus any partial RA or ICPM capacity obligation.[14]

The level of an Exceptional Dispatch ICPM designation can change in two circumstances. First, if the CAISO issues an Exceptional Dispatch for

[14] For example, consider a resource with a PMin of 30 MW and a Self Schedule of 40 MW. If the Exceptional Dispatch takes the resource to 50 MW, the ICPM designation is for 30 MW (PMin). If the Exceptional Dispatch takes the resource to 80 MW, the ICPM designation is for 40 MW (the difference between the Self-Schedule and the Exceptional Dispatch level).

Consider a resource with a PMin of 30 MW, an RA obligation of 20 MW and no self-schedule. If the Exceptional Dispatch is to 30 MW, the ICPM designation is 10 MW (the difference between the RA obligation and the Exceptional Dispatch). If the Exceptional Dispatch is to 50 MW, the ICPM designation is 30 MW (the difference between the RA obligation and the Exceptional Dispatch).

Consider a resource with a PMin of 30 MW, an RA obligation of 20 MW, and a Self-Schedule of 35 MW. If the Exceptional Dispatch is to 40 MW, the ICPM designation is 10 MW (the difference between PMin and the RA obligation). If the Exceptional Dispatch is to 50 MW, the ICPM designation is 15 MW (the difference between the self-schedule and the Exceptional Dispatch level).

Finally, consider a resource with a PMin of 30 MW, and RA obligation of 40 MW, and a Self-Schedule of 35 MW. If the Exceptional Dispatch is to 40 MW, there is no ICPM designation. If it is to 50 MW, the ICPM designation is 10 MW.

Incremental Energy in excess of the level of the sum of ICPM obligations and any RA obligation, the Exceptional Dispatch ICPM will increase by the amount (MW) of the excess. Second, if a resource has an RA obligation or an ICPM obligation that preceded the initial Exceptional Dispatch ICPM designation, and that obligation is reduced during the 30 day period following the Exceptional Dispatch ICPM designation, the Exceptional Dispatch ICPM designation would increase if necessary to ensure that the resource has an ICPM designation no less than Pmin. In either case, compensation will be based on the highest level of the ICPM compensation during the 30 day period.

2. Discussion

The proposed levels of ICPM commitments guarantee resources compensation for capacity that does not already have a must-offer obligation and that the CAISO uses. It also ensures that no party will have an obligation to remain at PMin without compensation for that obligation.

Several parties, including Dynegy, J.P Morgan, and Reliant,[15] continue to argue in their Reply Comments that all non-RA capacity available on a resource subject to Exceptional Dispatch should be given an automatic ICPM designation. In its Reply Comments, the CAISO explained some of the many reasons why an automatic full unit or rest-of-unit designation is inconsistent with the ICPM program and in some situations could cause adverse incentives in the various capacity and energy markets. First, it is inconsistent with, and would undermine, the partial ICPM framework already approved by the Commission for the simple reason that the ICPM is voluntary and no resource would accept a partial ICPM if

[15] *See, e.g.,* Dynegy at 7, J.P. Morgan at 4, Reliant at 5-7

it could force the CAISO to give it a full unit ICPM designation through an Exceptional Dispatch commitment. Similarly, it is inconsistent with the partial RA framework and would provide a disincentive to the negotiation of RA contracts. Third, contrary to the generators' contention that the CAISO would be using all of their capacity, the CAISO would have no more access to capacity above the partial designation than it has to capacity that submits Energy Bids. Yet if the capacity subject to Exceptionally Dispatch had instead been dispatched through the market, it is unlikely that the entire capacity of the unit would be dispatched and compensated.

In addition to these reasons, however, it is important to note the likely impact on bidding behavior. As discussed above, the CAISO shares the DMM concerns that offering ICPM designations to resources that have not bid into the market would provide an incentive to withhold Energy Bids in the hope of receiving an ICPM designation. The CAISO has concluded that this level of risk is tolerable in light of the need to ensure that resources are compensated for capacity that the CAISO uses in a regime that recognizes partial RA and partial ICPM designations. Offering full capacity designations, however, would increase that risk many fold while compensating units for capacity that the CAISO may never use. The CAISO does not believe such compensation would be just and reasonable.

E. Limits on Exceptional Dispatch Compensation

1. The Proposal

The CAISO has proposed to limit the sum of ICPM payments and monthly Supplemental Revenues to the applicable maximum monthly ICPM payment (*i.e.,* for a full capacity ICPM designation), which will be based on the higher of $41/kW-year or a resource's Commission-approved ICPM rate above $41/kW-year, whichever is applicable.

2. Discussion

A number of parties, such as WPTF, have raised concerns that there are caps on *total* revenues of Exceptionally Dispatched non-RA resources embedded in the CAISO's proposal. The CAISO explained in its Reply Comments why this is not so. Nonetheless, the CAISO remains concerned that there is a misunderstanding about the revenues cap. The CAISO reiterates that the Exceptional Dispatch Compensation proposal establishes *no caps* on market-based revenues from LMPs for resources subject to Exceptional Dispatch.

The CAISO has proposed to cap only Supplemental Revenues (since ICPM revenues are a fixed per-MW payment). The cap creates no constraint on a resource earning the higher of LMP or its Default Energy Bid. The CAISO first proposed a Supplemental Revenue cap based on the maximum ICPM capacity payment as part of the CAISO's June 27 proposal. The CAISO explained that the cap was not a cap on LMP revenues but rather a trigger for when mitigation of Bids would begin (in the circumstances in which mitigation is required under the proposed Tariff amendments). Unlike RA resources, non-RA resources would be exempted from mitigation for certain Exceptional Dispatches until this "cap" is reached, allowing them to earn the Supplemental Revenues through their Bids. The objective was to ensure that resources subject to mitigation during periods when LMPs might be lower or not much higher than their Default Energy Bids would have the opportunity to garner revenues above their Default Energy Bids as a contribution to fixed costs (using the ICPM rate as a benchmark), but not to limit revenues in the event that LMPs were high enough to provide such a contribution on their own. Once the cap was reached, the CAISO would begin mitigation on all Bids subject to Exceptional Dispatch, but the resource would still always earn the higher of LMP at its location or its Default Energy Bid. The CAISO did not propose to "claw-back" or otherwise restrict any LMP revenues under Exceptional Dispatch.

In its October 16 Order, however, the Commission noted:

> Furthermore, the ICPM price cap should negate the possibility of double payment under the CAISO's proposed tariff revisions and market design. . . . The Commission believes that the potential double recovery could be averted by requiring the CAISO to incorporate in the MRTU Tariff a provision that limits the amount of revenue a non-resource adequacy resource receives under Exceptional Dispatch or ICPM or both together to $41/kW-year.[16]

Accordingly, the current proposal modifies the description of the cap to take into account the possibility that a resource selecting Supplemental Revenues may also receive payments from an ICPM designation that is unrelated to the Exceptional Dispatch. The modification would prevent "double payment" for the portion of the resource's capacity receiving ICPM compensation.

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[16] *Cal. Ind. Sys. Operator Corp.*, 125 FERC ¶ 61,055 at P 107.

WPTF argues that the CAISO modified proposal is "speculative and inappropriate" because it ostensibly mixes payments for energy and capacity and is not necessarily based on an assessment of whether an eligible resource has earned sufficient capacity revenues over the year through RA contracts in other months or other sources.[17] There is no inappropriate mix, however, because, as explained above, the purpose of Supplemental Revenues is to allow an exceptionally dispatched resource that is subject to market mitigation an opportunity to recover its fixed costs, *i.e.*, Supplemental Revenues serve as a substitute for capacity payments. Under the revised CAISO proposal, resources have the option to elect one or the other payment approach as a contribution to fixed costs. Market-based *energy* payments, *i.e.,* the LMP or Default Energy Bid, are not part of the revenues that are capped.

WPTF is correct that Exceptional Dispatch Compensation in general is not based on an annual assessment of whether a particular non-RA or partial RA resource has earned sufficient capacity revenues on an annual basis. The CAISO tariff, however, does not contemplate – and the Commission has never required in a market-based rate structure – a guarantee that resources will recover their full fixed costs. This issue was discussed extensively in the ICPM proceeding. The only contract that CAISO offers that does have a unit-specific annual revenue consideration is the Condition 2 option under the RMR contract, and that option applies contractual limitations on energy revenues. In contrast, ICPM designations offer fixed payments for capacity for non-RA resources with no constraints on energy or ancillary service revenues; they do not provide

[17] WPTF at 13.

payments for capacity not subject to the designation. The Exception Dispatch Revenues cap simply limits the monthly Exceptional Dispatch Compensation to the equivalent of the Commission-approved ICPM payment, which is a reasonable benchmark for real-time capacity payments or their equivalent, however they are generated.

Moreover, because the revised CAISO proposal for Exceptional Dispatch pricing gives resources the option to get an ICPM designation or take Bid-based Supplemental Revenues (which would already be capped at the ICPM rate under the original proposal), the “double payment” aspect would only be applicable if a resource that has opted for the Bid-based supplemental revenues has a pre-existing partial ICPM designation or is offered an ICPM designation due to a Significant Event within the 30-day period initiated by the first Exceptional Dispatch. In other words, if the resource opts for the ICPM designation approach for Exceptional Dispatch (as it appears from the Comments and Reply Comments most would prefer), then there would be no Supplemental Revenues to be capped. Of course, there is no need for a revenue cap in such a circumstance because the capacity payments to a resource that opts for an ICPM designation would never exceed the maximum ICPM capacity payment because the sum of capacity designated under the Exceptional Dispatch and under any other ICPM designation can never exceed the capacity of the unit.

F. Technical Analysis

Reliant requests that if partial unit ICPM designations are approved, the CAISO's discretion to make such designations should be "tempered by requiring that the CAISO perform an objective and transparent analysis of the capacity it needs, and to make ICPM designation offers based on those analyses."[18] The CAISO does not believe any new analytical requirements are necessary.

The CAISO is already committed to undertaking extensive analysis of its capacity needs on an annual basis as part of the RA and ICPM process.[19] The CAISO conducts regular additional analyses of any changes in capacity needs in evaluating whether Significant Event ICPM designations are necessary.[20] The unknown level of additional analysis implied by Reliant's comments, which imply an analysis of the causes of each an every Exceptional Dispatch and a further calculation of any capacity associated with that Exceptional Dispatch, would create an unnecessary new burden on the CAISO at MRTU start-up. Moreover, many of the specific reasons that have been identified for Exceptional Dispatch, such as South of Path 26 contingencies, are already part of ongoing CAISO efforts at market development. In general, the CAISO remains committed to reduce the underlying causes of Exceptional Dispatch so as to reduce the incidence of Exceptional Dispatch. For these reasons, the CAISO requests that the Commission decline to impose any new analytical requirements.

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[18] Reliant at 4.
[19] *See* MRTU Tariff Sections 40, 43.
[20] *Id.* Section 43.1.4.

G. Participating Loads

SWP asks that the CAISO be required to provide a detailed explanation of how Participating Load will receive comparable compensation for agreeing to an Exceptional Dispatch.[21] In its Reply Comments, the CAISO noted that it committed to working with SWP to address issues regarding circumstances where Exceptional Dispatch could potentially interfere with SWP's water management responsibilities. In terms of compensation, however, SWP's water management responsibilities do not distinguish it from other resources. In opting to participate in the CAISO's markets as a supply-side resource, Participating Load has chosen to take advantage of the same compensation alternatives available to other supply-side resources, *i.e.*, to generation. The CAISO does not propose to distinguish between Participating Load and generation with regard to Exceptional Dispatch Compensation. If Participating Load does not wish to receive an ICPM designation, it can opt for Supplemental Revenues.

IV. CONCLUSION

For the reasons explained below and in the CAISO's Comments, the Commission should find that this revised Exceptional Dispatch pricing proposal, and the retained elements of the Exceptional Dispatch proposal included in the June 27 Filing, are just and reasonable and consistent with the principles set forth in the October 16 Order. As such, the Commission should approve them expeditiously so that they can be implemented simultaneously with the implementation of MRTU. Conversely, the Commission should not accept the

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[21] SWP at 2.

alternative pricing proposals and the arguments submitted by parties in their Comments, to the extent those pricing proposals and arguments are inconsistent with the CAISO's Comments and Reply Comments.

Respectfully submitted,

/s/Sidney Davies

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Table 1 – Comparison of Exceptional Dispatch Compensation Methods for Exceptional Dispatch

Proposed Rules and Properties	**ICPM Designation**	**Bid-based Supplemental Revenues**
Source of Exceptional Dispatch Compensation	ICPM revenues only	Energy revenues only (from the higher of LMPs, Bids or DEBs until cap reached)
Compensation for Commitment to PMin	ICPM designation to PMin	None
Compensation for Incremental Energy above PMin	ICPM designation for the higher of PMin or the incremental MW under Exceptional Dispatch subject to exceptions noted below	Higher of LMP or Bid-based payments for Energy Output before Supp. Revenue Cap subject to exceptions noted below; higher of LMP or DEB after Supp. Revenue Cap
Compensation for Incremental Dispatch of Resource to account for Forbidden Regions or other Unit Operating Constraints that require CAISO to adjust Real-Time Market Schedules or Self-Schedules through Exceptional Dispatch	None	None
Compensation for Decremental Energy	None	None
Compensation for De-Commitment	None	None
A/S, pre-commercial operations and PMax testing	None	None
Bid requirements for Exceptional Dispatch Compensation	No requirement to submit Bids into CAISO markets	Bids required to be submitted into CAISO markets for Supplemental Revenues; otherwise, compensation is based on the higher of LMP or DEB

Application of Bid Mitigation and Energy Revenues	Mitigation applied under proposed Exceptional Dispatch Tariff rules to all Energy Bids submitted for capacity designation under ICPM; Energy Revenues are higher of LMP or DEB	Bid Mitigation suspended subject to exceptions noted above until Bid-based revenues reach Supp. Revenue Cap; Mitigation applied under proposed Tariff rules to all Energy Bids
Offer obligation for Energy and Ancillary Services	Offer obligation applied to all MW under ICPM designation as per ICPM tariff rules	No offer obligation
Eligibility to submit non-zero Availability Bids into Reliability Unit Commitment (RUC)	Not eligible to submit non-zero Availability Bids in RUC for all MW under ICPM designation	No restrictions on submitting Availability Bids into RUC for eligible capacity
Minimum Level of Exceptional Dispatch Compensation	ICPM monthly rate per MW times designated MW (minimum of PMin MW for fully non-RA resources or resources with partial RA less than PMin)	No guaranteed minimum level of Exceptional Dispatch Compensation (revenues depend on Bid price offers)
Supplemental Revenue Cap/Double Payment Rule	Not applicable to resources that nominate ICPM designations for Exceptional Dispatch	Calculated based on total non-RA capacity of Resource. Requires netting of Supp. Revenues from ICPM revenues calculated on the basis of the awarded ICPM MW (if partial), not total non-RA MW.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each party listed on the official service list for these proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA on this 6th day of January, 2009.

/s/ Anna Pascuzzo
Anna Pascuzzo