

NRG Energy, Inc. Comments on July 20, 2012 Issue Paper and Straw Proposal for
Mitigation of Exceptional Dispatches in Real Time

Name	Company	Date
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NRG offers these comments on the CAISO's July 20, 2012 Mitigation for Exceptional Dispatch in LMPM Enhancements Phase 2 Issue Paper and Straw Proposal ("ED Mitigation Straw Proposal").

The use of Exceptional Dispatch ("ED") remains one of the continued disappointments following the implementation of the CAISO's nodal market in April 2009. While the CAISO, in its monthly market performance reports, regularly points to relatively small volumes of ED as evidence of a competitive and stable market, the monthly Chart 2 ED reports, which receive far less public scrutiny, regularly detail the price-suppressing effects of the continued use of ED.

The problem the CAISO seeks to solve with its straw proposal is the fact that anticipatory use of ED resolves the congestion that would have triggered the real-time application of the dynamic competitive path assessment, which then theoretically allows for the exercise of local market power, as the dynamic CPA would not identify which paths are non-competitive because it would not be run. Consequently, not identifying non-competitive paths in real-time would not apply mitigation to real-time energy bids. However, to exercise local market power, a rational supplier – one that did not want to regularly price themselves out of the real-time imbalance energy market – would have to anticipate the real-time congestion at least 75 minutes prior to its occurrence and then submit inflated bids. Whether this is a likely scenario or not, and whether it is likely that such obvious behavior would be detected or not – the exercise of local market power for what should be infrequent real-time ED is the core of the CAISO's concern. If real-time ED is not infrequent – then why isn't the CAISO focusing its resources on making it infrequent?

The CAISO's proposal to apply mitigation to real-time Exceptional Dispatches suffers from the same flaw that spurred the implementation of the dynamic CPA in the first place, namely, that any projection of competitiveness or non-competitiveness based on conditions other than those actually realized in real-time is likely to be wrong. The CAISO's proposal also recreates another serious flaw of the static CPA, namely, the application of a threshold set of congested hours (in this case, ten), below which a path is deemed to be non-competitive. Together, these two flaws undermine the CAISO's proposal.

NRG urges the CAISO to reconsider this flawed approach to mitigation and instead to consider how to apply the dynamic CPA *after* the real-time ED to assess competitiveness. The implementation of the dynamic CPA is intended to reduce the frequency of unintended mitigation; the CAISO's proposal does not work towards that goal. And while the dynamic CPA and LMP-decomposition approach to local market power mitigation *is* an improvement over the previous "two-pass" method, the CAISO should look to implement a local market power mitigation scheme that applies mitigation only when it is necessary.

NRG appreciates the opportunity to submit these comments.