

## Stakeholder Comments Template

### Subject: Exceptional Dispatch – Issues Paper Release 1

PG&E Comments

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the topic of Exceptional Dispatch and specifically the issue paper related to this topic as posted on March 21, 2008 (at: <http://www.caiso.com/1f91/1f91cdbc12f0.pdf>) and discussed on the stakeholder conference call on March 28, 2008. Upon completion of this template please submit (in MS Word) to <mailto:jmclain@caiso.com>. Submissions are requested by close of business on April 4, 2008.

Please provide your comments to the areas below related to the proposals and aspects of the proposals that you do or do not support in the space below. There is also a general comments section for any other comments you would like to provide.

#### General Comments:

Consistent with previously provided comments, PG&E continues to support the CAISO proposal that provides important mitigation for units receiving Exceptional Dispatches under MRTU. Specifically, units receiving Exceptional Dispatches for energy for any non-system level reliability requirements that cannot be otherwise addressed through RealTime Market (RTM) software, under the CAISO proposal, would be paid the higher of a) the DEB, or b) the LMP at the unit's location and thus eliminating the third 'higher of' component based on the unit's energy bid price. This mitigation measure is important since with Exceptional Dispatches, the unit's energy bids would not be subject to *any* market power mitigation beyond the prevailing energy bid caps. This concern is not restricted to either RA/ICPM/RMR or non-RA units, exceptional reliability needs of the CAISO should not result in the un-checked exertion of substantial market power by *any* critically required resource.

In the latest revised proposal of March 21, 2008, the CAISO has modified the above approach including the addition of several new mechanisms to augment payments for Exceptional Dispatch units. While suggesting that added payments are necessary to provide a contribution towards fixed cost recovery, the CAISO has provided no supporting evidence or justifications. Without a demonstrated and substantiated need, and with the possibility that added Exceptional Dispatch payments may alter supplier incentives to participate in bilateral or CAISO spot markets, PG&E does not support any of the added payment options. However recognizing that

the CAISO may nonetheless proceed in this direction, outlined below are PG&E preferences with these alternatives along with other detailed comments on the latest CAISO proposal.

1. Option 1 – Daily Capacity Payment

Oppose. The Capacity option has numerous unresolved design issues that would take considerable time and expense to address, in addition due to complexity, it is less desirable from design and implementation basis. Stakeholders will be at odds over what is the appropriate capacity quantity (such as Pmax, Pavg, or some other measure), what is the appropriate daily payment (1/30 of ICPM, 1/17, 1/8 or other), and what is the appropriate capacity payment rate (ICPM, other, with PER or without). The consideration of the capacity payment option appears complex enough to require a new stakeholder process similar to the TCPM and ICPM efforts, these should be avoided.

2. Option 2 – Bid Adder

While not convinced that any additional payments are warranted, the use of an energy bid adder consistent with the currently approved Frequently Mitigated Unit (FMW) bid adder seems to be the preferable and simple to implement alternative, if provisions exist that such an adder is applied *only* to incremental Exceptional Dispatches (and not including base unit commitment output at minimum load). The proposed use of \$24/MWhr is supported and this figure is already planned for FMU payments.

3. Other Supplemental Payment Options

PG&E does not support any consideration of a third option already indicated as ‘rejected’ in the latest proposal, specifically the idea to apply Exceptional Dispatch mitigation *only* to RA/ICPM/RMR resources should not be considered as a viable solution. As indicated above and in supporting CAISO and DMM documents “resources subject to such dispatch may have substantial locational market power”<sup>1</sup>, these concerns apply equally to any resource. Such market power is not limited to either RA/ICPM/RMR or non-RA units, to apply mitigation to only a subset would be arbitrary and would fail to meet a key expectation of this Exceptional Dispatch mitigation proposal.

4. Eligibility aspects

PG&E supports the eligibility criteria for added compensation rules proposed by the CAISO, such payments would be available for only non-RA/ICPM/RMR units started-up, dispatched and mitigated under these Exceptional Dispatch rules, and subject to the non-RA resource having an energy bid in the IFM. This last requirement is important; the CAISO proposal must not inadvertently create incentives to avoid market participation. The requirement to submit market bids as a precursor for any supplemental Exceptional Dispatch payments minimizes this concern and is supported by PG&E.

5. Mitigation aspects

PG&E continues to support the ability of the CAISO to mitigate resources required under Exceptional Dispatch, however there are lingering concerns with the CAISO decision to limit mitigation to only non-system reliably conditions. It is not clear that Exceptional Dispatch

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<sup>1</sup> CAISO Exceptional Dispatch Proposal 2/26/08, page 10.

requirements to address system needs would not benefit from the mitigation protection provided for under these non-system only mitigation provisions.

6. General comments  
See above.