Stakeholder Comments Template

Subject: Exceptional Dispatch – Issues Paper Release 1

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/1f91/1f91cdbd12f0.pdf) and discussed on the stakeholder conference call on March 28, 2008. Upon completion of this template please submit (in MS Word) to mailto:jmcclain@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.

1. Option 1 – Daily Capacity Payment

As Reliant understands CAISO's revisions to its exceptional dispatch mitigation proposal[1], CAISO proposes that an exceptionally dispatched generation resource without capacity contracts or capacity designations (whether Resource Adequacy (RA), Interim Capacity Procurement Mechanism (ICPM) or Reliability Must Run) would receive supplemental payments as a contribution to recovery of fixed costs. Reliant supports a capacity payment with the following conditions:

First, any supplemental capacity payment has to be made to be consistent with parameters and policies ultimately found to be just and reasonable by FERC in the TCPM and ICPM proceedings. An exceptional dispatch capacity payment would need to reflect the appropriate measure of capacity compensation is the validated, updated cost of new entry (CONE) of a reference peaking unit. An exceptional dispatch is by nature a reliability service[2]; FERC requires that resources "required to operate for similar reliability needs"[3]

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[1] See: http://www.caiso.com/1f96/1f96e88e6f90.pdf, http://www.caiso.com/1f91/1f91cdbd12f0.pdf and http://www.caiso.com/1f9c/1f9cc0ec4dcf0.pdf

[2] See CAISO March 21st DRAFT White Paper (http://www.caiso.com/1f91/1f91cdbd12f0.pdf) at page 5: "[e]xceptional Dispatch is an action taken by CAISO operators that takes place prior to real-time or in real-time in response to a reliability issue that cannot be resolved through the CAISO market software."

should "receive a similar capacity payment"[4] that allows them to recover their fixed costs. CONE accurately measures the value and costs of supplying the must-offer, capacity-only product to the CAISO. Reliant urges that CAISO use the results of the current TCPM and ICPM proceedings in determining supplemental compensation for and exceptional dispatch generation resource.

Second, the "trigger" for a supplemental capacity payment should be a single instance of exceptional dispatch by the CAISO, *i.e.,* when capacity is on call to the CAISO pursuant to exceptional dispatch. Specifically, a single instance of exceptional dispatch should trigger the seasonal or monthly capacity payment as ultimately determined by FERC in TCPM proceedings.

Third, as discussed below, mitigation of an exceptionally dispatched unit, whether it be a unit with our without capacity contracts, whether it be capacity with or without a bid submitted to the CAISO's markets, cannot be so severe as to preclude the submission of and recovery of appropriate intra-day gas costs, which consist of LDC scheduling imbalance charges, firm access rights costs and gas costs for that day. The current approach envisioned by the CAISO would likely preclude the just compensation of generating units because the Default Energy Bid (DEB) that CAISO would use, in some cases, to compensate a generating resource for a mitigated exceptional dispatch will in many circumstances not reflect the gas costs, LDC penalties, balancing charges and firm or interruptible firm access rights that the generating unit would need to procure on a moment's notice to respond to the CAISO's forced start-up. As such, Reliant urges the CAISO to address the recovery of verifiable gas costs above that level of costs included in a generating units DEB when responding to an exceptional dispatch when CAISO submits its updated white paper on April 11, 2008. In particular, Reliant urges the CAISO to clarify that Section 39.7.1 of the MRTU Tariff (Calculation of Default Energy Bids) will permit a generator to amend its Default Energy Bid to allow for the recovery of the verifiable costs associated with responding to the CAISO's reliability Exceptional Dispatch.

2. Option 2 – Bid Adder

Reliant has no comment on this option.

3. Other Supplemental Payment Options

Reliant believes that CAISO's 4/1/08 "Exceptional Dispatch: Supplement to Mitigation Option"[5] provides a solid starting point for the proper treatment of exceptional dispatches. As Reliant understands the CAISO's revised approach, CAISO does not intend to mitigate exceptional dispatches where the generating unit does not have capacity contracts or capacity designations.

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[3] See: *Indep. Energy Producers Ass'n v. Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,069 (2006), at P 36
[4] *Id.*
[5] See: http://www.caiso.com/1f9c/1f9cc0ec4dcf0.pdf

4. Eligibility aspects

Based on the March 28th CAISO stakeholder presentation, Reliant understands that generating resources would not be eligible supplemental capacity payments related to forced shut-down (decommitment); additional incremental energy from existing self-schedule or market-accepted schedule, or decremental energy. Conversely, Reliant understands that generating resources would be eligible for supplemental capacity payments for forced start-up (commitment) and incremental energy subsequent to a forced start-up.

Reliant understands that CAISO proposes that resources will be eligible for supplemental payments only if they have submitted an offer (see CAISO's March 28th presentation, slide 11). Reliant strongly disagrees with CAISO's proposal that resources are only eligible for supplemental payments only if they have an offer in the market. An exceptional dispatch, because it is not captured in MRTU software and is unexpected, is likely to occur on an intra-day basis. As such a generating resource that is not an RA resource may not have made an offer. Since it will not have made an offer, it will also not have scheduled gas and if the unit is located inside the service territory of Southern California Gas Company (SoCalGas), it will not have purchased interruptible firm access rights to schedule gas to respond to the CAISO's start-up. Furthermore, the exceptionally dispatched unit may be forced to pay scheduling penalties if the exceptional dispatch occurs during a day in which SoCalGas declares an Operational Flow Order. Thus, denying a resource a supplemental payment just because it does not have a bid in is inappropriate, because it will add to the under-recovery of fixed and variable costs associated with responding to the exceptional dispatch instruction. Such a pattern of under-recovery will ultimately harm reliability, as a resource without capacity contracts or capacity designations will be forced to consider going into mothball status as opposed to losing, potentially, under some circumstances, millions of dollars for each instance of exceptional dispatch.

5. Mitigation aspects

Reliant understand that under the CAISO's exceptional dispatch proposal, payment for some Exceptional Dispatches for energy would be limited to the higher of the unit's DEB, or LMP. The CAISO proposal is that Mitigation would only apply to Exceptional Dispatches for reliability requirements associated with non-competitive transmission constraints or other special unit operating or environmental constraints not incorporated in MRTU model.

Reliant understand that mitigation would not apply to Exceptional Dispatches for system-wide energy needs congestion on competitive transmission constraints. Reliant disagrees with this approach. For both mitigated and non-mitigated exceptional dispatches, however, there is a significant under-recovery of costs if the unit cannot recover its costs associated with responding to an exceptional dispatch when these calls fall on a high gas-demand day or even due to the fact that the exceptional dispatch may occur on an intra-day basis. For example, if the generating resource is located inside the SoCalGas service territory, it will need Firm Access Rights enabling it to schedule and flow gas, and may be forced to pay scheduling penalties if the exceptional dispatch occurs during a day in which SoCalGas declares a low Operational Flow Order. A unit that is called on an intra-day basis will may be mitigated, and it may not be able to submit a bid, owing to mitigation and the fact that it was called on an intra-day basis. The 10% adder that CAISO might add to the DEB pursuant to MRTU Tariff Section 39.7.1.1 may not be compensatory for extra costs above that which is reflected mitigated level incurred to respond to an exceptional dispatch call. In CAISO's 2005 MRTU Issues White Paper, the CAISO states that: "*Regarding underpressure days the ISO recognizes that this is a concern, but does not feel that an event that is so sporadic should be modeled in the DEB. The ten percent adder is present every time a mitigated bid is dispatched and this constant adder should easily make up for such an infrequent event. For these reasons the CAISO declined to model OFO* [operational flow order] *days in the DEB*."[6]

As such, the CAISO's mitigation approach for exceptional dispatches is patently unreasonable. What is needed is for the CAISO to state that it will allow an exceptionally dispatched generating resource to submit to the CAISO for compensation purposes the verifiable gas and any LDC charges and LDC penalties that are above that level of costs included in the DEB when a generating resource responds to the CAISO's exceptional dispatch call. Under certain circumstances these extra costs can cause the actual cost of gas associated with responding to an exceptional dispatch to be *multiple*s of the cost of gas procured during normal operating conditions. These additional costs associated with responding to an exceptional dispatch must be recoverable if the CAISO has called an exceptional dispatch and mitigated the bid of a generator. Thus, Reliant urges CAISO to clarify that Section 39.7.1 of the MRTU Tariff enables a generating resource to amend its Default Energy Bid to allow for the recovery of additional, verifiable costs associated with responding to CAISO's reliability Exceptional Dispatch.

6. General comments

Reliant appreciates the CAISO's willingness to re-examine compensation of exceptional dispatch. However, Reliant strongly urges the CAISO to refrain from mitigation of not only non-resource adequacy units and from applying mitigation in such a way as to prevent the genuine recovery of extra costs incurred to respond to an exceptional dispatch.

[6] See: CAISO MRTU Issues Paper, September 2005, page 12