

Revised Proposal for Mitigation of Potential Market Power Under MRTU Exceptional Dispatch Provisions

January 17, 2008

Background

The CAISO's Department of Market Monitoring (DMM) issued a white paper on November 30, 2007 discussing a proposed approach for mitigating potential market power under the Exceptional Dispatch provisions of the current MRTU tariff.¹ Written comments from stakeholders on this initial white paper were received on December 12, 2007. In response to these comments, DMM issued a paper with additional discussion and information on this issue on January 3, 2008.² DMM then discussed issues related to the proposed mitigation rule and other stakeholder questions at a teleconference on January 7, 2008. Additional written comments were received on January 14, 2008.

Based on these stakeholder discussions and comments – along with further consultation with CAISO Operations personnel and management – DMM has developed a more specific revised proposal that will be presented for approval at the January 28-29, 2008 Board of Governors (BoG) meeting. DMM is providing a description of this more specific revised proposal at this time so that stakeholders can review it and contact DMM should they have any additional comments or questions in advance of the January 28-29 BoG meeting.

Proposal

The basic mitigation rule being proposed continues to be based on the approach incorporated in DMM's initial white paper. Specifically, under the final proposal, some units receiving manual Exceptional Dispatches for energy needed to meet reliability requirements that cannot be addressed through the MRTU software would be paid the higher of:

- The unit's Default Energy Bid (DEB) ,or
- The LMP at their location.

However, under this revised proposal, the criteria for determining which Exceptional Dispatches would be subject to mitigation has been narrowed and more specifically defined. Specifically, the mitigation rule would not apply to Exceptional Dispatches for energy needed for:

- System-wide energy requirements; and
- Relief of congestion on competitive transmission constraints

¹ The DMM whitepaper can be found at <http://www.caiso.com/1c89/1c89d76950e00.html>.

² Initial stakeholder comments along with the response to these comments can be found at <http://www.caiso.com/1c89/1c89d76950e00.html>.

Meanwhile, the mitigation rule would only apply to Exceptional Dispatches for energy needed for:

- Reliability requirements related to non-competitive transmission constraints;
- Ramping units up from minimum operating levels to minimum dispatchable levels in order to protect against reliability contingencies that are not directly incorporated or sufficiently met by the MRTU software; and
- Other special unit-specific operating or environmental constraints not incorporated in the MRTU model.

The above categories were developed based on input from CAISO Operations staff on the potential reasons that Exceptional Dispatches may be issued under MRTU, and the ability of CAISO Operators to identify and log the reason for Exceptional Dispatches into various categories.

The rationale underlying this approach is that the categories for which the mitigation rule is applied involve conditions under which the potential for market power is likely to exist due to the need to issue Exceptional Dispatches for highly localized or unit-specific constraints, and other reliability requirements that are not subject to the automated Local Market Power Provisions (LMPM) incorporated in the MRTU software. In such cases, mitigating payments for any Exceptional Dispatches (for energy above a unit's minimum operating level) to the higher of the unit's DEB or the LMP at the resource's location closely mirrors the market result that would occur if the reliability requirement creating the need for the Exceptional Dispatch were incorporated in the MRTU software.

As noted in previous documents and discussions on this issue, the CAISO will post hourly information on the volumes, costs and reasons for all Exceptional Dispatches on OASIS in a timely manner. Although such publicly posted information typically needs to be aggregated at some level (e.g. by the various categories established for logging Exceptional Dispatches), DMM believes this will provide a high level of transparency to market participants concerning the frequency, volume, costs, causes and degree of mitigation of Exceptional Dispatches.

Next Steps

Any further written stakeholder comments and questions may be submitted to marketmonitoring@caiso.com. Questions may also be directed to Eric Hildebrandt at 916-608-7123. DMM will be seeking approval of this proposal at the January 28-29, 2008 Board of Governors (BoG) meeting.