Stakeholder Comments Template

Subject: Exceptional Dispatch – Straw Proposal

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 straw proposal paper related to this topic as posted on April 14, 2008 (at: http://www.caiso.com/1f91/1f91cdbd12f0.pdf) and discussed at the stakeholder meeting on April 15, 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 24, 2008.

Please provide your comments to the areas below related to the two straw 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 – Bid Adder Option

Based on its ongoing review of the CAISO's proposed mitigations for ED payments, CPUC staff support the notion of the bid adder to units that are called for exceptional dispatch subject to a cap below the ICPM payment. Given the voluntary nature of ICPM, leaving ED uncapped will likely make ICPM moot. Therefore, monthly generator revenues received from ED should be capped at a level slightly lower than ICPM. This increases the probability that generators that are offered ICPM designations will accept them (as specified by the third bullet of CAISO's evaluation criteria).[1] CPUC staff support utilizing the FMU adder ($24/MWh) proposed by CAISO.

2. Option 2 – Relaxed Mitigation Option

CPUC staff believes that the nature of ED seems to imply market power concerns. Therefore, CPUC staff opposes all of the relaxed mitigation options proposed by CAISO, even with the proposed revenue cap. Though the relaxed mitigation options ensure that generators are able to recover fixed costs, it allows the generators to exercise market power without repercussion unless and until the ICPM cap is reached. Generators with local market power and able to bid at the cap will reach the ICPM cap in very few instances of ED when compared to the bid adder

[1] CAISO's Straw Proposal 4/14/08, p 13.

option. This increases the likelihood that generators would decline ICPM designation until they hit the cap set for ED. Only after the cap is reached would generators accept ICPM designation. Under the proposed pricing rules in Option 2, CAISO would not have any mechanism that would prohibit this type of behavior.[2] The CPUC staff suggests alternatives that would correct for these types of incentives in Response 3.

3. Effect of the Exceptional Dispatch options on incentive to accept or decline ICPM designation

CPUC staff remains concerned that some generators that are located in areas where transmission constraints are not modeled and local market power exists will decline ICPM until the cap is reached for ED. Though CPUC staff expects that ED generally will be infrequent and unpredictable, the potential for making twice the ICPM payment in a month seems to be potentially excessive compensation for some generators. Therefore, CPUC staff proposes that CAISO cap ED revenue slightly below the ICPM payments. CPUC staff believes that this will increase the incentives for generator to accept ICPM payments when they are offered.

To avoid the opportunities for ICPM withholding/double payment issue discussed above, CPUC staff proposes CAISO utilize a claw back mechanism for additional ED payments. If a unit initially declines an ICPM designation, then is exceptionally dispatched, and accepts a subsequent ICPM designation offer (less than 30 days after the last instance of ED), all revenues earned under ED between the initial offer and the subsequent acceptance of ICPM designation should be applied towards the ICPM payments. Furthermore, the ICPM designation should either be retroactively applied to the original ICPM offer date, or the ICPM designation should be shortened by the number of days between the initial ICPM offer and the subsequent acceptance of ICPM.

4. Types of Exceptional Dispatch that should or should not be eligible for supplemental payments or subject to relaxed mitigation

As noted above, CPUC staff believes mitigation measures must be applied to both RA/ICPM units and non-RA/ICPM units. Additionally, the mitigation criteria laid out by CAISO seems reasonable.[3] With the exception of the must bid requirement, which is discussed in further detail below, the rules for eligibility for bid adders also seem reasonable.[4]

5. Requirement to bid into the CAISO markets in order to be eligible to receive the Bid Adder option

CPUC staff is unclear if the requirement that generators must bid into the market to be eligible for the bid adder is necessary. If the CAISO imposes the mitigation measures suggested in the

[2] During discussion with the MSC on 4/17/2008 CPUC staff observed that the effective cap for units that are exceptionally dispatched in a 31 day time frame is twice the ICPM payments. This assessment was confirmed by CAISO staff and the MSC. This would be reached by any adder or unmitigated revenues reaching the cap on day one, and then accepting an ICPM designation on day two.
[3] CAISO's Straw Proposal 4/14/08, p 11.
[4] CAISO's Straw Proposal 4/14/08, pp 16-18.

most recent Straw Proposal, then there should be no need for this requirement. In fact, given the mitigation rules as proposed, it seems that generators could never do better by staying out of the market than they could by entering the market. The mitigation mechanism, which would mitigate the generator to the DEB plus the bid adder, would leave the generator in the same position whether the unit was in or out of the market. CPUC staff requests examples of instances where exiting the market for exceptional dispatch would improve the situation of the exceptionally dispatched unit. Additionally, there are many legitimate reasons a generator would choose to not bid into the market. Therefore, imposing this requirement seems to unfairly punish generators that may have a legitimate reason for not bidding into the market.

6. General comments

The CPUC staff supports the idea of capping the revenues that can be earned from ED below the monthly ICPM payment. With this in mind, CAISO should clarify whether the cap on ED should apply in the absence of the ICPM offer. For example, if CAISO makes no ICPM designation offer, should the cap still apply to ED units? The "claw back" mechanism proposed by the CPUC in Response 3 above does not propose to impact ED payments made prior to an ICPM offer. If the cap does not apply to units that did not receive an ICPM offer, then CAISO must balance offering too many ICPM designations (creating a baseline offer, to initiate the cap, only to have the generator accept the offer, leading to over-procurement) and not offering enough (potentially allowing a generator to earn more than if it were offered and accepted ICPM designation).

Though CPUC staff strictly prefers the bid adder option over the relaxed mitigation option, the idea of a cap makes both options more palatable. However, CAISO must implement mechanisms that will not increase the probability that a generator will not forgo RA contracts or ICPM designations. The CPUC staff believes setting the ED cap below the ICPM payment and implementing the claw back mechanism described above provide this reassurance.