Stakeholder Comments Template

Subject: Exceptional Dispatch – Issues Paper Release 1

Submitted by	Company	Date Submitted
Charlyn Hook (415) 703-3050 *Michael Dorsi (415) 703-2317*	*California Public Utilities Commission (CPUC)*	*Friday, April 4, 2008*

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

CPUC staff prefers the daily capacity payment when compared with the other options described in the CAISO Draft White Paper. The CAISO has stated that if it adopts this option, it would limit the daily capacity payment to the amount that the unit would receive under ICPM. Staff believes that this is preferable to the other options, as it will ensure that no unit receives an incentive to decline ICPM in favor of an exceptional dispatch payment.

2. Option 2 – Bid Adder

CPUC staff tentatively opposes the proposal for a bid adder. While a bid adder may pay some units less than they would receive under ICPM, it could also result in paying other units more, thereby incenting those units to refuse ICPM designations. CPUC staff prefers Option 1, because it provides greater certainty that no unit can profitably decline ICPM in favor of exceptional dispatch. CPUC staff is willing to consider the merits of more specific bid adder methods that may be proposed in this stakeholder process.

3. Other Supplemental Payment Options

CPUC staff is not proposing other payment options at this time, but will look at alternate payment options proposed by stakeholders.

4. Eligibility aspects

CAISO should clarify which portions of a unit's total capacity would be used as a basis for an ED capacity payment for decremental exceptional dispatch, i.e., only the portion of the unit's capacity that was bid into the market, or the unit's total capacity. (This was not resolved on the March 28th call.)

5. Mitigation aspects

CPUC staff support the CAISO's use of local market power mitigation, including in the case of exceptional dispatches.

CPUC staff opposes the option in the CAISO's Supplement to the Exceptional Dispatch White Paper to eliminate market power mitigation for non-Resource Adequacy ("RA")/ICPM/Reliability Must-Run ("RMR") resources. CPUC staff believes that this would create a unique opportunity for units with market power to avoid market power mitigation, and as such would incent these units to reject RA/ICPM/RMR arrangements. In addition, CPUC staff believes that the very units that need to be exceptionally dispatched could be the same units that are most likely to be able to exercise market power, and therefore would have the most to gain from declining such RA/ICPM/RMR designation.

6. General comments

Reporting/Tracking:

The CPUC feels strongly that any CAISO ED program must be subject to substantial tracking and reporting requirements. Many stakeholders have acknowledged that ED payments may cause distortions in the energy, ancillary services and RA markets as well as acceptance of ICPM designations. CAISO staff asserted during the March 28 call that the ED usage would be analyzed to improve CAISO grid models to improve their ability to provide for reliability without out of market dispatch. Because of this potential for market distortions, CAISO market monitors, state regulators and stakeholders should have the opportunity to review ED activities in order to identify and remedy such distortions.

Ensuring Proper Incentives:

CPUC staff strongly believe that, regardless of the compensation structure the CAISO adopts in the end, the compensation for exceptional dispatch should not be greater than the compensation for ICPM or for RA contracts. If CAISO creates incentives for units to seek to be exceptionally dispatched, the likely outcome is that some units will succeed, causing market distortion. CPUC staff acknowledges and appreciates CAISO's efforts to ensure that exceptional dispatch cannot result from units electing to withhold from other procurement mechanisms, however, even if these measures are well-planned, they may be insufficient. As CPUC staff has noted in prior comments, methods for avoiding market power or other gaming behavior may fail in markets where the participants have many repeated opportunities to experiment with the market system.

As a result, CPUC staff believes that it is necessary to disincent units from seeking to be exceptionally dispatched.

If units do seek to be exceptionally dispatched, there are two notable negative consequences that the CAISO may face. First, it may become substantially more difficult for the CAISO to achieve its stated goal of minimizing the use of exceptional dispatch, a position that a broad array of stakeholders support. However, if the CAISO establishes a compensation structure for exceptional dispatch that rewards units, more units will seek to ensure that this designation is applied, and CAISO may be forced to use exceptional dispatch more frequently. In order to minimize exceptional dispatches, CAISO should do so not only through CAISO operations, but also through the incentives the CAISO provides to generating units.

Second, incentives pushing units toward exceptional dispatch could pull units away from other longer-term energy/capacity supply arrangements. If CAISO gives a unique payment opportunity to units being exceptionally dispatched, but disqualifies the unit if it accepts any other designation, then units will be more likely to decline other longer-term energy/capacity supply arrangements such as RA and ICPM. RA requires the willing participation of generators, and given a better incentive, generators may simply not offer to sell RA. Additionally, if FERC approve the ICPM in its present form, it will be a voluntary designation. If exceptional dispatch provides compensation preferable to ICPM, units may opt to not accept the voluntary ICPM designation, and therefore undermine the CAISO's intended backstop procurement process. Generous compensation for exceptional dispatch may incent the units most needed in Local RA and ICPM to avoid those designations in favor of exceptional dispatch, therefore undermining the ability of Local RA and ICPM to procure sufficient capacity.

For these reasons CPUC staff strongly suggest that CAISO make certain that exceptional dispatch is not the most lucrative option for generators.