J.P. Morgan/Dynegy Comments on
Exceptional Dispatch Review and Assessment White Paper
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Submitted by	Company	Date Submitted
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J.P. Morgan Ventures Energy Corporation and BE CA, LLC (collectively, "J.P. Morgan") and Dynegy (together, "J. P. Morgan/Dynegy") appreciates this opportunity to provide comments on the California ISO's (CAISO's) June 10, 2010, Exceptional Dispatch Review and Assessment White Paper ("White Paper").

Please add your comments below.

1. Decline in Exceptional Dispatch. Do you agree that Exceptional Dispatch has declined? The White Paper concludes that Exceptional Dispatch has declined by approximately 70% in terms of MWh volume, percentage of load, total hours and frequency. The White Paper also concludes that costs associated with Exceptional Dispatch have declined by as much as 65%. Do you agree that a level of Exceptional Dispatch in this range can be considered acceptable?

J.P. Morgan/Dynegy agrees that the level of Exceptional Dispatch has declined since the start of the CAISO's new market. J.P. Morgan/Dynegy applauds the CAISO's efforts at reducing Exceptional Dispatch. While J.P. Morgan/Dynegy agrees that the CAISO will always need to be able to rely on its Exceptional Dispatch authority and that there will likely always be some level of Exceptional Dispatch, J.P. Morgan/Dynegy reserves judgment whether the current level can be considered "acceptable." J.P. Morgan/Dynegy recommends that the CAISO continue to focus on reducing Exceptional Dispatch and focus on efforts to price into the market all operating and reliability related requirements.

2. <u>Significance of Exceptional Dispatch</u>. Do you see Exceptional Dispatch as a significant issue? The White Paper notes that Exceptional Dispatch is only a monthly average of 0.25% of load during January-March 2010.

J.P. Morgan/Dynegy does view Exceptional Dispatch as a significant issue and will continue to do so as long as CAISO operators must make decisions outside the CAISO's market. Moreover, although the level of Exceptional Dispatch may be relatively low from a system load perspective, J.P. Morgan/Dynegy remains concerned about, and is focused on, the *capacity* requirements satisfied through Exceptional Dispatch and whether such requirements can be priced into the market and whether resources are appropriately compensated for that capacity.

3. <u>Need for New Market Product</u>. Do you see a need for a new market product? The White Paper concludes that the modeling and software improvements undertaken to date have significantly reduced Exceptional Dispatch.

The White Paper concludes that no new market products are needed based on a review of Exceptional Dispatch data. J.P. Morgan/Dynegy is concerned that this conclusion is premature. First, the data relied upon by the CAISO covered a period since the start of the new market where load and congestion levels were relatively low. J.P. Morgan/Dynegy posits that under stressed market/operating conditions, the CAISO may be required to rely more heavily on Exceptional Dispatch and the need for certain resources and/or services may be revealed.

Second, while the modeling and software improvements implemented by the CAISO have reduced Exceptional Dispatch, the solutions have not materially impacted resource compensation and may not be the best long-term solution to pricing the CAISO's requirements directly in the CAISO's markets. For example, and as discussed at the June 17, 2010, stakeholder meeting on Exceptional Dispatch ("June 17th meeting"), the CAISO's efforts to implement certain Minimum On-line Constraints (MOCs) to address specific capacity requirements (such as those required per CAISO operating procedures G-217, G-219, G-206 and for transmission outages) have reduced or eliminated the Exceptional Dispatches related to those requirements. However, implementation of the MOCs has not changed the level of compensation for resources committed through the market to address those requirements, nor does it impact market prices. Those resources continue to only receive compensation for their start-up and minimum load energy, consistent with Bid Cost Recovery mechanisms for market commitments at minimum load. While J.P. Morgan/Dynegy acknowledges, as pointed out by the CAISO, that resources so committed are then potentially better positioned for market dispatches above minimum load, J.P. Morgan/Dynegy recommends that the CAISO efforts not foreclose examination of additional market enhancements. For example, as discussed at the June 17th meeting, J.P. Morgan/Dynegy urges the CAISO to explore the feasibility of implementing methods to price minimum load energy in the

CAISO's markets, be that through "Convex Hull" pricing or some other methodology/functionality.

Finally, the CAISO states that in order to address certain operating requirements (e.g., SP26 Capacity, NP26 Capacity, Path 26, Region Reliability), rather than use Exceptional Dispatch it will "Implement post-contingency corrective measures into SCUC/SCED." (White Paper at pp. 25-26). Based on discussions at the June 17th meeting, J.P. Morgan/Dynegy understands that the CAISO intends to employ a two-step procedure whereby the CAISO will: 1) redispatch (dispatch *energy*) to address the contingency (e.g., an overload of Path 26 resulting from the loss of the Pacific DC Intertie); and then 2) readjust the system to ensure that there is sufficient on-line *capacity* to protect against the next contingency. When questioned about this approach at the June 17th meeting, the CAISO stated that it would not procure operating reserves in real time as part of the system "readjustment", since the "need" was not for operating reserves but a reserve product capable of addressing the contingency in the requisite 30-minute period. That discussion begs the questions: what product or reserve service is required, and how does the CAISO intend to compensate resources for providing what is clearly a capacity service? At this point in time, the answer is unclear and therefore it is premature for the CAISO to conclude that no new product or service is needed to address the CAISO's capacity requirements. Whether through a stand-alone process or through the CAISO's upcoming renewable resource integration and ancillary service product review process, the CAISO should continue to examine and explore the use of existing, or the need for new market mechanisms, to address its operating needs.

In conclusion, J.P. Morgan/Dynegy recommends that the CAISO take a more holistic approach to determining the need for new market products or functionality. Rather than myopically focusing on the short-term, seasonal levels of Exceptional Dispatch and whether the level of Exceptional Dispatch necessitates the development of new market products, the CAISO should: 1) endeavor to price in its markets all known and observable CAISO operating requirements (and thus reduce out-of-market operator actions like Exceptional Dispatch and transmission limit biasing); 2) endeavor to transparently reflect the true costs of meeting all operational requirements (such as the need to commit units at minimum load) in market prices; and 3) ensure that resources needed to satisfy CAISO market and operating requirements are fairly compensated and that such compensation establishes appropriate incentives for new and existing resources (be they generation or demand-based) to make themselves available to satisfy the CAISO's requirements. Toward that goal, J.P. Morgan/Dynegy continues to urge the CAISO to clearly specify its operating requirements and limitations, be they in the form of defined constraints, nomograms, operating reserve requirements, ramping capability, etc. Such specification is essential, especially if such upcoming efforts as the renewable integration and ancillary service product review are to be fruitful.

4. Monthly Reports. Given that the information in the Monthly Table 1 Report is entirely contained in the Monthly Table 2 Report, and that the ISO also makes Exceptional Dispatch information available in the monthly Market Performance Report, do you see a need for the ISO to continue to provide all three reports?

J.P. Morgan/Dynegy is not opposed to the CAISO consolidating its monthly Exceptional Dispatch related reports. However, J.P. Morgan/Dynegy recommends that this information continue to be provided. Although consolidating the reports could delay the publication of the data currently provided in Table 1 until the data in Table 2 (cost information) is available to the CAISO, J.P. Morgan/Dynegy does not believe that such a delay would pose any specific problems.

As suggested at the June 17th meeting, J.P. Morgan/Dynegy does suggest that the CAISO regularly report not only on Exceptional Dispatches but also:

1) The frequency and magnitude of all operator actions that are taken outside the market, including transmission limit bias adjustments made by CAISO operators in both the day-ahead and real-time market. While J.P. Morgan/Dynegy understands that the CAISO Department of Market Monitoring ("DMM") includes information on transmission limit biasing in its quarterly reports, J.P. Morgan/Dynegy suggests that such information be provided by the CAISO as part of the information the CAISO provides regarding Exceptional Dispatch. (J.P. Morgan/Dynegy is not proposing that the CAISO's FERC reporting obligation with respect to Exceptional Dispatch to expanded to include transmission limit biasing).

2) The measures the CAISO has implemented to reduce Exceptional Dispatch. For example, J.P. Morgan/Dynegy recommends that the CAISO report on the frequency of, and magnitude to which, the CAISO's newly implement MOCs are enforced in the market and the frequency that, and magnitude to which, MOC-committed resources are dispatched above minimum load. As discussed at the June 17th meeting, J.P. Morgan/Dynegy also recommends that the CAISO develop the reporting tools necessary to be able to report on the requirements driving market commitments. At the June 17th meeting the CAISO stated that it was unable to easily determine the reason a resource was committed in the market. For example, it is difficult for the CAISO to discern whether a resource was committed in the market to economically serve demand or whether a resource was committed in the market to address a specific reliability requirement, such as a MOC. J.P. Morgan/Dynegy suggests that this information is important, in that it may provide useful information regarding the extent to which these measures impact market results and whether other or new market enhancements are necessary in order to price the CAISO's operating/reliability requirements into the market.

5. Other Comments?