

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

<b>California Independent System Operator Corporation</b>	)	<b>Docket Nos. ER06-615-000,</b>
	)	<b>ER07-1257-000,</b>
	)	<b>ER08-1178-000,</b>
	)	<b>EL08-88-000</b>

**ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO MOTIONS FOR TECHNICAL CONFERENCE AND COMMENTS**

Pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure,<sup>1</sup> the California Independent System Operator Corporation (“ISO”)<sup>2</sup> hereby files its answer to comments and motions for a technical conference submitted by three parties<sup>3</sup> in response to filings made by the ISO regarding its Exceptional Dispatch authority during the month of June 2009.<sup>4</sup> As explained below, the Commission should reject the parties’ comments and motions because they amount to procedurally inappropriate and insufficiently supported complaints against the ISO. The Commission should also find that there is no need to hold a technical conference in these proceedings; the Commission gave no indication in the order issued in these proceedings on February 20, 2009,<sup>5</sup> that a future technical conference on Exceptional Dispatch was needed. Further,

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<sup>1</sup> 18 C.F.R. § 385.213.

<sup>2</sup> The ISO is also sometimes referred to as the CAISO. Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff.

<sup>3</sup> The following parties filed motions for a technical conference and comments: J.P. Morgan Ventures Energy Corporation and BE CA LLC (together, “J.P. Morgan”); NRG Power Marketing LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power LLC, and Long Beach Generation LLC (collectively, “NRG”); and the Western Power Trading Forum (“WPTF”).

<sup>4</sup> These filings are discussed in Section I (Background) of this answer.

<sup>5</sup> *California Independent System Operator Corp.*, 126 ¶ 61,150 (2009) (“February 20 Order”).

there are no open issues in these proceedings that require the Commission to order a technical conference, and other forums exist to address stakeholder concerns. Even if the Commission were to find that a technical conference is needed, such a conference should be limited to a discussion of the frequency of and reasons for Exceptional Dispatch, and should not occur until sufficient data on Exceptional Dispatch exists, which will require the ISO to obtain data through the end of the summer and then analyze the results. Moreover, all parties to these proceedings should not be surprised by the use of Exceptional Dispatch, particularly in the first few months of the new market design. It is premature to conclude that changes to the market design are necessary – such as allowing exceptionally dispatched resources to set the Locational Marginal Prices (“LMPs”) – based on the experience of the first few months and without a reasonable opportunity for the ISO to reduce reliance on Exceptional Dispatch over time. Lastly, while the ISO is interested in enhancing its ability to provide useful information to stakeholders in a timely manner, the Commission should find that the ISO’s Exceptional Dispatch reports satisfy the directives in the February 20 Order as reflected in the CAISO Tariff.

## **I. BACKGROUND**

### **A. The ISO’s Monthly Exceptional Dispatch Reports**

Under Section 34.9 of the CAISO Tariff, the ISO can issue Exceptional Dispatch instructions – *i.e.*, dispatches issued outside the standard dispatches

issued pursuant to the ISO's market software – for a number of specified purposes.<sup>6</sup>

In the February 20 Order, the Commission conditionally accepted in part and rejected in part a revised proposal filed by the ISO for compensating Exceptional Dispatches, effective upon the implementation of the ISO's new market design.<sup>7</sup> Therein, the Commission directed the ISO to file, on compliance, tariff provisions requiring the ISO to submit periodic reports that detail the "frequency, volume, costs, causes, and degree of mitigation of exceptional dispatches."<sup>8</sup> The Commission explained that the purposes of these periodic reports are to enable the Commission and stakeholders to "remain informed about the use of Exceptional Dispatch" and to "help facilitate any stakeholder processes concerning the development of additional market mechanisms to address situations that frequently give rise to exceptional dispatches."<sup>9</sup>

Pursuant to the directives in the February 20 Order, the ISO submitted a compliance filing on March 23, 2009 ("March 2009 Compliance Filing"), that included new Section 34.9.4 of the CAISO Tariff. Section 34.9.4 requires the ISO to submit periodic reports on the "frequency, volume, costs, causes, and

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<sup>6</sup> CAISO Tariff, Section 34.9; *id.*, Appendix A, definition of Exceptional Dispatch.

<sup>7</sup> The Market Redesign and Technology Upgrade ("MRTU") market structure is referred to hereafter as the "ISO's new market." The ISO's new market became effective on March 31, 2009, for the Day-Ahead Market for the April 1, 2009, Trading Day.

<sup>8</sup> February 20 Order at P 263. The timing of the ISO's periodic Exceptional Dispatch reports is discussed in footnote 15, below.

<sup>9</sup> *Id.*

degree of mitigation of Exceptional Dispatches” during the time periods covered by the reports.<sup>10</sup>

In its April 28, 2009 answer (“April 28 Answer”) addressing comments and protests on the March 2009 Compliance Filing, the ISO explained that it intended to include in its Exceptional Dispatch reports information that “strikes a balance between the need for transparency and the imposition of an excessive burden on the ISO.”<sup>11</sup> In particular, the ISO proposed to include the following information in its Exceptional Dispatch reports:

- The frequency of Exceptional Dispatches (*i.e.*, the ISO will identify each Exceptional Dispatch and the date or dates on which it occurred);
- The gross volume of the Exceptional Dispatch;
- The cause of the Exceptional Dispatch (*e.g.*, transmission outages on a particular line) and the reason that an Exceptional Dispatch was necessary;
- The cost of the Exceptional Dispatch, which would include Exceptional Dispatch Energy, Excess Cost Payments for Exceptional Dispatches, Exceptional Dispatch Interim Capacity Procurement Mechanism (“ICPM”) payments, and supplemental revenues;
- The degree of mitigation achieved by the Exceptional Dispatch, *i.e.*, whether any Exceptional Dispatch Bids are mitigated;
- The location of the exceptionally dispatched resources at the level of Local Reliability Area if relevant and applicable and to the extent such information is readily determinable; and
- The market in which the Exceptional Dispatch occurred.<sup>12</sup>

Pursuant to the February 20 Order, Section 34.9.4, and consistent with the details proposed in the April 28 Answer, the ISO filed its first periodic report in

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<sup>10</sup> Commission action on the March 2009 Compliance Filing is pending.

<sup>11</sup> April 28 Answer at 9.

<sup>12</sup> *Id.* at 9-10.

these proceedings on May 18, 2009 (“May 2009 Monthly Report”), in order to provide information on Exceptional Dispatches that occurred during the initial 15 days after implementation of the ISO’s new market (*i.e.*, the time period from April 1 through April 15, 2009).<sup>13</sup> In response to comments regarding the May 2009 Monthly Report, the ISO filed an answer on June 23, 2009 (the “June 2009 Answer”). The ISO filed its second report on Exceptional Dispatch on June 15, 2009 (covering the time period from April 16 through May 15, 2009) (“June 2009 Monthly Report”) and its third such report on July 15, 2009 (covering the time period from May 16 through June 15, 2009, as well as providing final Exceptional Dispatch data for the April 1-15 time period) (“July 2009 Monthly Report”).<sup>14</sup>

#### **B. The June 2009 Status Report**

In the February 20 Order, the Commission, in addition to issuing the directives discussed above, also directed the ISO to report on the status of three matters. Specifically, the Commission directed the ISO to file a report within 120 days “that details [1] the status of its discussions with stakeholders on the

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<sup>13</sup> The May 2009 Monthly Report also provided information on Market Disruptions that occurred during that same time period. The ISO provided the information on Market Disruptions pursuant to Paragraph 29 of the Commission order issued in Docket Nos. ER06-615-023 and ER07-1257-005 on March 9, 2009, 126 FERC ¶ 61,211, and Section 7.7.15.4 of the CAISO Tariff. None of the parties in these proceedings raised any issues regarding the Market Disruptions component of the ISO’s monthly reports, and therefore the ISO does not discuss it further in this answer.

<sup>14</sup> The timing of the submittal of the May 2009, June 2009, and July 2009 Monthly Reports satisfied the Commission’s directives in the February 20 Order. In that Order, the Commission directed the ISO to file its first report on Exceptional Dispatches within 60 days of the implementation of MRTU and to file each subsequent Exceptional Dispatch report every 60 days thereafter. February 20 Order at P 263. The ISO filed the May 2009 Monthly Report within 60 days after MRTU implementation as required by the February 20 Order. Also, as the ISO explained both in the April 28 Answer and in the May 2009 Monthly Report, the ISO proposes to file each subsequent report on a monthly basis rather than every 60 days. April 28 Answer at 7-8; May 2009 Monthly Report at 1-2. Filing on a monthly basis means that each subsequent report will be submitted well within the 60-day time period stated in the February 20 Order. Further, in the April 28 Answer and the May 2009 Monthly Report, the ISO explained that it proposes to file its monthly reports on the fifteenth day of each month to cover the time period ending on the fifteenth day of the prior month. *Id.*

development of a market mechanism for Path 26, [2] the outcome of the voltage support stakeholder process, and [3] its discussions with SWP [the California Department of Water Resources State Water Project] on the Exceptional Dispatch procedures for participating load, as discussed in the body of” the February 20 Order.<sup>15</sup> The ISO filed a status report on June 22, 2009 (“June 2009 Status Report”) to comply with these Commission directives.<sup>16</sup>

## II. ANSWER

### A. The Parties’ Comments and Motions Amount to Insufficiently Supported Complaints Against the ISO and Are Procedurally Inappropriate.

Most of the parties’ comments on the ISO’s June 2009 filings on Exceptional Dispatch consist of assertions that the ISO’s exercise of its Exceptional Dispatch authority is distorting or suppressing prices in the ISO’s markets, and assertions that the ISO should develop mechanisms to allow Exceptional Dispatches (and other non-market dispatches) to set market clearing prices, at least until the ISO develops “market-based solutions” to alleviate the need for Exceptional Dispatch.<sup>17</sup> The relief the parties request goes far beyond mere comments on the ISO’s reports or a request for procedural actions by the Commission, because it implicates the mechanisms for performing and compensating Exceptional Dispatches as well as the method by which market prices are set, as set forth in the CAISO Tariff and approved by the

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<sup>15</sup> February 20 Order at Ordering Paragraph (C).

<sup>16</sup> By July 22, 2009, the ISO plans to file a supplement to the June 2009 Status Report to provide an update on its discussions with SWP regarding Exceptional Dispatch procedures for Participating Load.

<sup>17</sup> J.P. Morgan at 7-11; NRG at 2-8; WPTF at 3-10.

Commission.<sup>18</sup> As such, the concerns articulated by the parties in response to the ISO's June 2009 Exceptional Dispatch filings should be addressed through the ISO stakeholder process, which would lead to a filing under Section 205 of the Federal Power Act ("FPA") if it were determined that tariff changes were necessary, or alternatively, through the filing of a properly substantiated complaint pursuant to Section 206 of the FPA.

As discussed below, the ISO believes that the most appropriate and efficient forum for addressing the concerns expressed by the parties regarding Exceptional Dispatch is through the ISO's stakeholder process. However, if parties nevertheless wish to seek Commission action to alter the approved rates, terms, and conditions of the CAISO Tariff, then, by statute, the proper procedure for doing so is through a complaint proceeding brought under Section 206. In this regard, the Commission has explained that the filing of a complaint gives all interested parties sufficient notice that an existing rate, term, or condition is being challenged:

Complaints filed with the Commission are given a separate docket number and a notice of filing is issued by the Commission and published in the *Federal Register*. This procedure provides all interested parties notice that a complaint has been filed, and provides them an opportunity to respond. The notice contains a

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<sup>18</sup> See, e.g., J.P. Morgan at 8 ("J.P. Morgan is concerned that the CAISO's Exceptional Dispatches may be dampening or muting the LMPs in the L.A. Basin and thus may obviate the value of such prices in guiding operating and resource procurement activities."); NRG at 3 ("Immediate Commission action is necessary because the CAISO's routine use of what is designed to be an 'exceptional' market intervention mechanism is distorting market clearing prices in California."); WPTF at 3 ("[I]t is time to re-examine the CAISO's use of Exceptional Dispatch, the impact it has on the CAISO's markets and the prospects for timely market changes to reduce the excessive use of Exceptional Dispatch."); *id.* at 6 ("WPTF requests that the Commission direct the CAISO to present its market analysis to the Commission and market participants at the requested technical conference and present a proposal to price required resources within the market.").

comment date by which all interested persons must file comments, protests, or interventions.<sup>19</sup>

In contrast to a properly filed complaint, the comments and motions filed in the instant proceedings provide no notice to all interested parties that J.P. Morgan, NRG, and WPTF seek changes to the ISO's existing, Commission-approved practices and tariff provisions, nor do the comments and motions provide an opportunity for all interested persons to respond by filing comments, protests, or interventions.<sup>20</sup> As it has done in similar cases, the Commission should reject these attempts to use the comments and motions as substitutes for properly filed complaints.<sup>21</sup>

Moreover, J.P. Morgan, NRG, and WPTF do not provide any factual support for their assertions that the ISO's exercise of its Exceptional Dispatch authority is distorting or suppressing prices in the ISO's markets. They claim that immediate Commission action is needed based merely on their perception that the ISO is employing Exceptional Dispatch on a "routine" basis<sup>22</sup> and the

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<sup>19</sup> *Louisiana Power & Light Co.*, 50 FERC ¶ 61,040, at 61,062 (1990).

<sup>20</sup> NRG asserts that a complaint process would be "costly" and that the ISO would contend that the complainants had failed to meet their obligations to quantify their financial impact or burden pursuant to Rule 206(b) of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.206(b)), and WPTF states that it "would prefer" that the ISO take action in the absence of a complaint. These statements of NRG and WPTF do not in any way legitimize the inappropriate inclusion of issues in comments or motions instead of in a complaint that meets the requirements of Section 206 of the FPA and Rule 206 of the Commission's rules.

<sup>21</sup> *Id.* ("[A] complaint cannot be submitted as an integral part of a protest and motion to intervene in an ongoing proceeding."); *Southern Company Services, Inc.*, 116 FERC ¶ 61,070, at P 26 (2006) ("Effingham, through its intervention and protest, would be seeking to convert a section 205 review of the Informational Filing into an evaluation of the already approved Interconnection Agreement. A party seeking such a change must file a complaint under section 206 of the FPA. A protest does not expand the scope of a proceeding.").

<sup>22</sup> The ISO put the Commission and parties to the Exceptional Dispatch proceeding on notice that it would need to rely on Exceptional Dispatch to a greater degree than initially anticipated. February 20 Order at P 18 ("In the June Proposal, however, the CAISO repeatedly stated that Exceptional Dispatch instructions will be far more frequent than originally contemplated in the MRTU proceeding."); *id.* at P 33 ("While we share parties' concerns that the number of situations that will require manual, out-of-market intervention is significantly larger than

“appearance” of market distortion due to the ISO’s Exceptional Dispatch of certain units in the Day-Ahead time frame. In order to demonstrate that the ISO’s current Exceptional Dispatch authority requires modification, parties must provide evidence that consists of more than mere unsubstantiated, speculative allegations.<sup>23</sup> J.P. Morgan, NRG and WPTF have clearly failed to do so.

The parties’ comments and motions are inappropriate for other reasons as well. NRG and WPTF request that the ISO develop a proposal for pricing “required resources” in the ISO markets.<sup>24</sup> These parties fail to recognize that the Commission has a long history of considering ISO authority to dispatch resources for reliability needs outside of standard market dispatches, *i.e.*, “out-of-market” and “out-of-sequence” dispatches in the ISO’s former market and Exceptional Dispatches in the ISO’s new market. Although the Commission has required modifications to the compensation paid to such resources, the Commission has never required that such dispatches establish a market clearing price.<sup>25</sup>

WPTF further requests that the ISO perform analyses that include other types of what it terms “out of market calls,” including “dispatches at the interties, market calls for energy with no explanations, and dispatches of units for which

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originally proposed, . . . we do not find the CAISO’s proposed reliance on Exceptional Dispatch to be unjust or unreasonable.”). The Commission initiated a Section 206 proceeding to investigate all Exceptional Dispatch issues (*id.* at PP 9, 269), and the concerns now being raised by the parties could have been raised in that proceeding. At this point, however, the only pending matter is the March 2009 Compliance Filing, discussed in Section I, above.

<sup>23</sup> See *California Municipal Utilities Association v. California Independent System Operator Corp.*, 126 FERC ¶ 61,315, at P 72 (2009).

<sup>24</sup> NRG at 5; WPTF at 3-4, 6.

<sup>25</sup> See, *e.g.*, *Independent Energy Producers Association v. California Independent System Operator Corp.*, 118 FERC ¶ 61,096, at P 174 (2007) (“The CAISO explains that . . . units that are called out-of-sequence to alleviate a local problem are not eligible to set the market clearing price.”); *San Diego Gas & Electric Co.*, 105 FERC ¶ 61,066, at P 120 (2003) (“Under CAISO procedures, OOM [out-of-market] transactions cannot set the MCP [Market Clearing Price].”).

the CAISO fails to set the LMP at or above their bid due to ‘MIP Gap’ issues.”<sup>26</sup> The ISO’s monthly Exceptional Dispatch reports include information on all Exceptional Dispatches. The ISO includes information concerning all Exceptional Dispatches issued pursuant to Section 34.9 of the CAISO Tariff, as well as dispatches settled as Exceptional Dispatches at a negotiated price pursuant to Section 11.5.6 of the CAISO Tariff.<sup>27</sup> This data includes intertie dispatches of System Resources that may not have submitted bids and are, therefore, compensated at a negotiated price.<sup>28</sup> Thus, the ISO already provides the information required by the February 20 Order with regard to dispatches at the interties.<sup>29</sup> There are no other “out of market calls.” The ISO also believes analysis of any effect of the “MIP gap” on LMP pricing is, and should be, beyond the scope of Exceptional Dispatch reporting.<sup>30</sup>

**B. There Is No Need to Hold a Technical Conference in These Proceedings.**

The Commission should find that it is unnecessary to establish a technical conference in these proceedings as J.P. Morgan, NRG, and WPTF request. In the February 20 Order, the Commission did not change the scope of the ISO’s

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<sup>26</sup> WPTF at 5 n.6. “MIP” stands for “mixed integer programming,” and the MIP gap is a screening metric used as a measure of the optimality of the market solution. See “Overview of Quality of Solution Procedures for MRTU Markets” (Mar. 17, 2009), at 3. This document is available on the ISO’s website at: <http://www.caiso.com/2374/2374a20316c40.pdf>.

<sup>27</sup> Section 42.1.5 of the CAISO Tariff sets forth the ISO’s authority to negotiate a price for Generation or Ancillary Services on a Real-Time basis. Any such transaction is settled as Exceptional Dispatch Energy pursuant to Section 11.5.6.

<sup>28</sup> Admittedly, the ISO has been challenged to gather all this data in time to include it as soon as possible in its Exceptional Dispatch reports. The ISO is working on improving its data gathering capabilities.

<sup>29</sup> See, e.g., July 2009 Monthly Report at 5-7.

<sup>30</sup> If Market Participants have questions about how the software works, including questions on the MIP gap, these questions can be addressed – and have already been documented – by the ISO in the stakeholder process. See, e.g., LECG Final Report entitled “Analysis Track Testing of CAISO MRTU Pricing and Dispatch” (Oct. 20, 2008). This report is available on the ISO’s website at: <http://www.caiso.com/2067/2067769c1c5a0.pdf>.

use of Exceptional Dispatch. The outcome of the proceeding was to establish the instances where bid mitigation was appropriate and to require the ISO to enable resources without capacity-based compensation to choose to be compensated under the ICPM tariff provisions or, as proposed by the ISO, to receive supplemental revenues. All of the substantive issues now presented by J.P. Morgan, NRG, and WPTF could have been raised – but were not raised – in comments and protests in response to the ISO tariff amendment filing that resulted in the February 20 Order or in the Commission-established Section 206 proceeding.

The Commission also directed the ISO to submit periodic reports regarding its use of Exceptional Dispatch, because these reports would enable the Commission and stakeholders to “remain informed about the use of Exceptional Dispatch” and would “help facilitate any stakeholder processes concerning the development of additional market mechanisms to address situations that frequently give rise to exceptional dispatches.”<sup>31</sup> The Commission, while recognizing that the ISO would likely have to issue Exceptional Dispatches more frequently than originally anticipated, especially during the first few months of operations under the ISO’s new market,<sup>32</sup> gave no indication that it believed that a future technical conference, in addition to the ISO’s monthly Exceptional Dispatch reports, would be or even might be

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<sup>31</sup> February 20 Order at P 263.

<sup>32</sup> See *id.* at PP 33-34, 84-85.

necessary and, as discussed above, all substantive issues in these proceedings have been litigated.<sup>33</sup>

There are no open issues that require the Commission to order a technical conference and revisit its decisions in the February 20 Order. The ISO's use of Exceptional Dispatch has been thoroughly documented in its monthly reports as contemplated in the February 20 Order. Also, as directed in the February 20 Order,<sup>34</sup> the ISO submitted a compliance filing and 120-day status report in these proceedings – the March 2009 Compliance Filing and the June 2009 Status Report, respectively. The only relevant issue regarding these filings is whether they satisfy the directives in the February 20 Order.

Instead of insisting on a technical conference, J.P. Morgan, NRG, and WPTF can and should raise any issues they have regarding Exceptional Dispatch through stakeholder forums established by the ISO. For example, on July 16, 2009, the ISO's Market Surveillance Committee ("MSC") held a meeting open to stakeholders that included discussion of the reasons for issuing Exceptional Dispatches, an assessment of the hourly Energy volumes of Exceptional Dispatches for the purpose of indicating their market impacts, the trends over time regarding the frequency of Exceptional Dispatches, and recommendations for reducing reliance on Exceptional Dispatch.<sup>35</sup> At the meeting, stakeholders were given the opportunity to provide their input on these

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<sup>33</sup> The only technical conference the Commission established in the proceedings took place in November 2008. *Id.* at P 13.

<sup>34</sup> *Id.* at Ordering Paragraphs (B) and (C);

<sup>35</sup> Before the July 16, 2009, MSC meeting, the ISO made the materials to be presented at the meeting available on its website at: <http://www.caiso.com/23e7/23e7a5721e760.html>. Copies of the ISO's presentations at that meeting are included with this answer as Attachment A and B.

Exceptional Dispatch issues. Stakeholder forums like the MSC meeting provide the most suitable venue for J.P. Morgan, NRG, and WPTF, as well as any other parties, to raise concerns such as those expressed in their filings in these proceedings. By raising these issues in stakeholder forums, all interested parties and the ISO have the opportunity to thoroughly explore issues and concerns and work towards collaborative solutions. The ISO submits that there is no need, and indeed, it would be harmful, to simply bypass this process and establish a technical conference at this time. This is particularly so given the very limited experience under the ISO's new market and the need for the ISO to have a reasonable opportunity to reduce reliance on Exceptional Dispatch in the future.

**C. If the Commission Were to Require a Technical Conference, the Conference Should Focus Solely on the Frequency of and Reasons for Exceptional Dispatch, and Should Not Take Place Until the ISO Has Sufficient Data Regarding Exceptional Dispatch.**

Even if the Commission were to require a technical conference, the scope of the conference should be much more limited than that proposed by J.P. Morgan, NRG, and WPTF. As explained in Section II.A, above, the technical conference as proposed by these parties would be tantamount to a proceeding to address allegations that the ISO's existing Exceptional Dispatch provisions need to be modified. That would be inappropriate. In the February 20 Order, the Commission accepted the ISO's current Exceptional Dispatch compensation provisions as just and reasonable. Therefore, any technical conference the Commission might establish should be confined to exploring ways for the ISO to reduce the need for Exceptional Dispatch, rather than addressing the legitimacy

of the provisions for pricing and compensating Exceptional Dispatches. If the ISO is able to achieve its goal of reducing the number of Exceptional Dispatches,<sup>36</sup> there will be no reason for the ISO to make any policy or tariff changes such as modifying the compensation for mitigated Exceptional Dispatch or somehow pricing Exceptional Dispatches in the market as the parties propose.

Moreover, any technical conference the Commission might establish should not take place on an expedited basis as the parties propose.<sup>37</sup> Instead, any conference should take place after the ISO has had a chance to obtain and review Exceptional Dispatch data through the end of the summer.<sup>38</sup> As the Commission recognized would occur, the ISO's operators are still in the process of gaining experience with the market software, and consequently the ISO has had to rely on Exceptional Dispatch during the initial months of operations under the new market to a greater degree than it anticipates will be necessary in future months. This was part of the rationale for the Commission's establishment, in the February 20 Order, of a transitional revenue cap regarding certain types of Exceptional Dispatches for the first four months after the ISO's new market was implemented.<sup>39</sup> As of August 1, 2009, the ISO will have to compensate each exceptionally dispatched resource at the higher of its Energy Bid price, the Default Energy Bid price, or the Resource-Specific Settlement Interval Locational Marginal Price, unless the bid is subject to mitigation. During the first four months after implementation of the ISO's new market (*i.e.*, until August 1),

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<sup>36</sup> See February 20 Order at P 19.

<sup>37</sup> *Cf.* J.P. Morgan at 7; NRG at 8.

<sup>38</sup> The ISO's review should not be deemed to be completed until the ISO submits a monthly report regarding the Exceptional Dispatch data.

<sup>39</sup> February 20 Order at PP 84-87.

essentially all Energy Bids are subject to mitigation.<sup>40</sup> Accordingly, the Commission has created a further incentive to the ISO to reduce reliance on Exceptional Dispatch. The ISO should have the opportunity to work to reduce reliance on Exceptional Dispatch before substantial design changes should be considered.

In fact, over the first two and a half months after market implementation, the frequency of Exceptional Dispatches has fluctuated: the average number of Exceptional Dispatches per day was 18.8 for the April 1-15 time period. This average increased to 27.6 for the April 16-May 15 time period, but decreased to 20.35 for the May 16-June 15 time period.<sup>41</sup> Moreover, the most recent data from June indicates that the capacity obtained through Exceptional Dispatch for that month was half of what it was during May.<sup>42</sup> The ISO is continuing efforts to reduce the instances of Exceptional Dispatch, and is confident that these efforts will bear fruit. However, the numbers do not at this point reflect a sufficient trend over time in the Exceptional Dispatch data to afford useful discussion in a conference, and seasonal requirements could also influence the volume of Exceptional Dispatch. For example, the ISO has not experienced a significant period of hot summer weather until very recently, and data for this current time period will not be reported on until the Exceptional Dispatch report to be filed on September 15, 2009. Any conference should be held after the ISO has obtained

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<sup>40</sup> See *id.*

<sup>41</sup> See Attachment A hereto, containing the ISO presentation entitled "Exceptional Dispatch," at slide 7. These Exceptional Dispatch data are also reflected in the May 2009, June 2009, and July 2009 Monthly Reports.

<sup>42</sup> See Attachment B hereto, containing the ISO presentation entitled "Exceptional Dispatch Trends for April-June 2009," at slides 8-9.

and reviewed a larger and more representative sample of Exceptional Dispatch data that indicate a clearer overall trend which, as stated above, will require the ISO to review the information on Exceptional Dispatches that occur through the end of the summer.

**D. The ISO's Exceptional Dispatch Reports Satisfy the Directives in the February 20 Order.**

WPTF states that it does not contend that the ISO's Exceptional Dispatch reports are out of compliance with the Commission's directives.<sup>43</sup> Nevertheless, WPTF asserts that the ISO erred in the June 2009 Answer in arguing that the reports need not and should not include more information about individual Exceptional Dispatches than is already included in them.<sup>44</sup> The Commission should reject WPTF's assertion because, as explained in the June 2009 Answer, requiring the ISO to provide this additional, individualized information would impose an onerous burden on the ISO, would serve no reasonably useful purpose, and could facilitate the exercise of market power.<sup>45</sup> There is also no merit to WPTF's argument that including the additional information would not result in the potential for such information to result in market manipulation, because the ISO has the authority to mitigate the exercise of market power.<sup>46</sup> The ISO's goal should be to prevent market manipulation and the exercise of market power, not to create the risk that it may occur and then mitigate it. In addition, WPTF has not shown that any usefulness of providing the additional information would outweigh the burden on the ISO of gathering and reporting it.

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<sup>43</sup> WPTF at 1. J.P. Morgan (at 6-7) states the same thing.

<sup>44</sup> WPTF at 10-11.

<sup>45</sup> June 2009 Answer at 7, 9-10, 17.

<sup>46</sup> WPTF at 11.

NRG asserts that the explanation in the June 2009 Answer that the ISO issues consecutive daily Exceptional Dispatches, not multi-day Exceptional Dispatches, is a meaningless semantic distinction.<sup>47</sup> It is entirely accurate to state that the ISO issues consecutive daily Exceptional Dispatches rather than multi-day Exceptional Dispatches, and that practice is consistent with the CAISO Tariff and Operating Procedure M-401.<sup>48</sup> Although the ISO can issue an Exceptional Dispatch at any time if necessary, the use of consecutive daily Exceptional Dispatches conforms with the ISO's preferred practice of issuing Exceptional Dispatches prior to the Day-Ahead Integrated Forward Market run in circumstances where (1) the previous day's Day-Ahead Market did not commit a resource needed for reliability or a resource needed to solve the market was not committed, and (2) the same condition is anticipated for the next Trading Day and the resource is not self-scheduling. In these circumstances, the use of Exceptional Dispatch prior to the Day-Ahead Integrated Forward Market run prevents over-commitment in the Day-Ahead process and reduces the potential for over-generation in off-peak hours, thus reducing the need to rely on Exceptional Dispatch to de-commit or decrement a resource.<sup>49</sup> In performing these Exceptional Dispatches, the ISO is assessing, on a daily basis, whether the circumstances described above require such action, rather than making a single decision to commit units on a multi-day basis.

NRG repeats an argument made by WPTF earlier in these proceedings that the ISO should be required to explain in its monthly reports how Exceptional

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<sup>47</sup> NRG at 3-4.

<sup>48</sup> June 2009 Answer at 8-9.

<sup>49</sup> See Attachment A hereto at slides 3-4.

Dispatches that are issued before the Day-Ahead Integrated Forward Market run affect the Integrated Forward Market outcomes.<sup>50</sup> For the reasons explained in the June 2009 Answer and as explained above, the information requested by NRG (and WPTF) goes far beyond the ISO's reporting obligations under the February 20 Order. Therefore, the request constitutes an untimely request for rehearing of, and collateral attack on, the Commission's reporting directives and there is no need for the ISO to provide that information in its reports.<sup>51</sup>

### III. CONCLUSION

For the reasons explained above, the Commission should take action in these proceedings as discussed herein.

Respectfully submitted,

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Dated: July 21, 2009

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<sup>50</sup> NRG at 5-6.

<sup>51</sup> See June 2009 Answer at 20-23.

# **Attachment A**



# Exceptional Dispatch

*Debi Le Vine*  
*Director, Market Services*

*Tim Van Blaricom*  
*Manager, Real Time Operations*

ISO Market Surveillance Committee Meeting  
July 16, 2009

# Expectation of reliance on Definition of Exceptional Dispatch changed over time.

- February 2006 – Initial MRTU Tariff
  - Expectation was that Exceptional Dispatch use would be rare and infrequent
- Since summer 2008 – Software available for ISO testing
  - Software testing and market simulation began to reveal that Exceptional Dispatch would need to be relied on more often than anticipated
- Software enhancements should decrease number of Exceptional Dispatches

# Exceptional Dispatches can be issued at any time.

Although the ISO can issue an Exceptional Dispatch at any time if necessary, most Exceptional Dispatches are either issued in the day-ahead or real-time time frames

- Day-ahead:

- In advance of the Day-Ahead Market when operators have evidence that the IFM will not commit a resource identified as necessary for reliability
- After the IFM runs if a resource needed for reliability is not committed by the market

- Real-time:

- Any time after the Day Ahead Schedules are published

# Pre-IFM of Exceptional Dispatch

- Events that require pre-IFM Exceptional Dispatch
  - Yesterday's Day-Ahead Market did not commit a resource needed for reliability or a resource needed to solve the market was not committed
  - The same condition is anticipated for the next Trading Day and the unit is not self scheduling
- Reason for pre-IFM Exceptional Dispatch
  - Prevents over-commitment in Day-Ahead process
  - Reduces potential for over-generation in off-peak hours

# Post-IFM Exceptional Dispatch

- IFM results did not produce a feasible reliability result due to various conditions:
  - Voltage Support
  - Capacity based requirements
  - System requirements (load forecast change, adverse operating condition)
  - Post-IFM, scheduled unit forced outage
  - Post-IFM, forced transmission outage

# Real-time Exceptional Dispatch

- Address a need that market software cannot address
  - Forecast or schedule does not match
    - Actual load
    - Load Distribution Factors (LDFs),
    - Transmission configuration
    - Unit outputs
  - Positioning a unit for higher ramp rate capability
  - Software limitations and variances (11.5% of total Exceptional Dispatch)
  - Unit operating limitations (including forbidden regions)

## Exceptional Dispatches are decreasing.

Exceptional Dispatch Reporting Period	Number of Exceptional Dispatches	Average Number of Outages per Day	Average Number of ED per Day
April 1 – 15 (revised)	282	537	18.8
April 16 – May 15	828	581	27.6
May 16 – June 15	631	509	20.35

## Reporting Period May 16<sup>th</sup> to June 15<sup>th</sup>

Total Exceptional Dispatches	=	631
Day-Ahead Exceptional Dispatches	=	184 (29%)
Real-time Exceptional Dispatches	=	447 (71%)
% Exceptional Dispatch of Total Load	≈	3%

# Day-Ahead statistics for May 16 to June 15

- 76 Commitments (41.3%)
  - Path 26
  - G-219, SCE Local Area Generation Requirement for Orange County
  - G-217, South of Lugo Generation Requirements
  - G-206, San Diego Area Generation Requirements
  - T-103, SCIT
  - G-233, Bay Area Generation Commitment

## Day-Ahead statistics for May 16 to June 15 (cont.)

- 82 Commitments (44.6%)
  - Transmission outage PG&E, SCE, or SDG&E
  - 14 commitments after June 1
  - Typically capacity based requirements
- 21 Commitments (11.4%)
  - SP 26
  - System Capacity
- 5 Commitments (2.7%)
  - Seldom used procedures
  - Requirements normally met by market run

# HASP failure and manual intertie Exceptional Dispatch are included in Real-Time statistics

- 110 Exceptional Dispatches for HASP Failure (24.6%)
  - Represents intertie schedules that ISO believes would have cleared if HASP had not failed
- 68 Manual Dispatches (15.2% of total)
  - Represents Intertie energy that was manually dispatched
  - Operator determined HASP results not satisfactory

# Frequency of remaining Real-Time Exceptional Dispatch

- 83 dispatches due to Transmission outages (18.6%)
  - Transmission outage PG&E, SCE, or SDG&E
  - 14 commitments after June 1
  - Typically capacity based requirements
- 71 dispatches due to software limitations (15.9%)
- 37 dispatches due to: (8.3%)
  - Path 26
  - G-219, SCE Local Area Generation Requirement for Orange County
  - G-217, South of Lugo Generation Requirements
  - G-206, San Diego Area Generation Requirements
  - T-103, SCIT
  - G-233, Bay Area Generation Commitment

## Frequency of remaining Real-Time Exceptional Dispatch (*cont.*)

- 25 dispatches due to ramp rate constraints (5.6%)
- 16 dispatches for capacity needs (3.6%)
  - NP 26
  - SP 26
  - System Capacity
- 37 dispatches for various conditions (8.2%)
  - Market disruptions
  - Over-generation
  - Seldom used procedures
  - Requirements normally met by market run

# Next steps to reduce frequency of Exceptional Dispatches

- Software enhancements:
  - Multi-Stage Generator
  - Reduce HASP failures
  - Revise software requirement that only on-line capacity is considered in nomogram constraint
  - Model Qualifying Facility generators as net versus gross
  
- Process improvements:
  - Revise process and validation of generation and transmission outages
  - Improve modeling process

## **Attachment B**



California ISO  
Your Link to Power

# Exceptional Dispatch Trends for April – June 2009

Douglas Bergman, Ph.D.  
Lead Market Monitoring Analyst,  
ISO Department of Market Monitoring

MSC Meeting – General Session  
July 16, 2009

# Overview of Presentation

- The purpose of this analysis is to provide a
  - Detailed review of trends in Exceptional Dispatch (ED) over the first three months of market operation;
  - Detailed description of some of the primary reasons for ED; and
  - Assessment of the hourly energy volumes of ED – as an indication of relative market impact.
- Presentation will cover
  - Data limitations and interpretation
  - Summary of Exceptional Dispatch by reason
  - Detail on most prevalent Exceptional Dispatch reasons

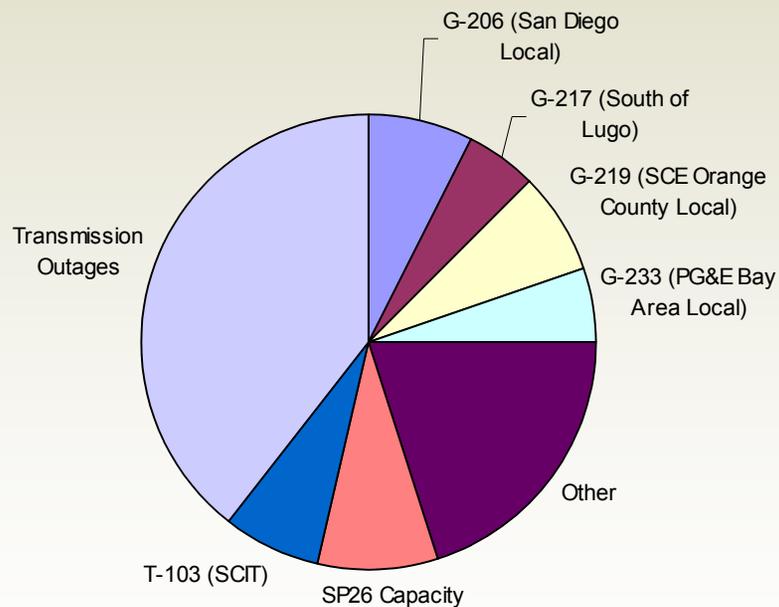
# Data Limitations and Assumptions

- Data used in analysis are from ISO logging application
  - Provides information about reason for ED and whether ED was “manual dispatch”, “Pre-IFM day-ahead”, “Post-IFM day-ahead”, or “real time”.
  - Data are manually entered and not settlement quality
  - Some assumptions were required in cases where data were not complete
- Analysis focuses on internal resources
  - Dispatch of RMR resources via ED not considered
  - Dispatch of intertie resources not considered
- Charts capture gross energy from ED and do not distinguish between “in-market” and “Out-of-Sequence”
- Analysis does not address instruction codes or settlement issues

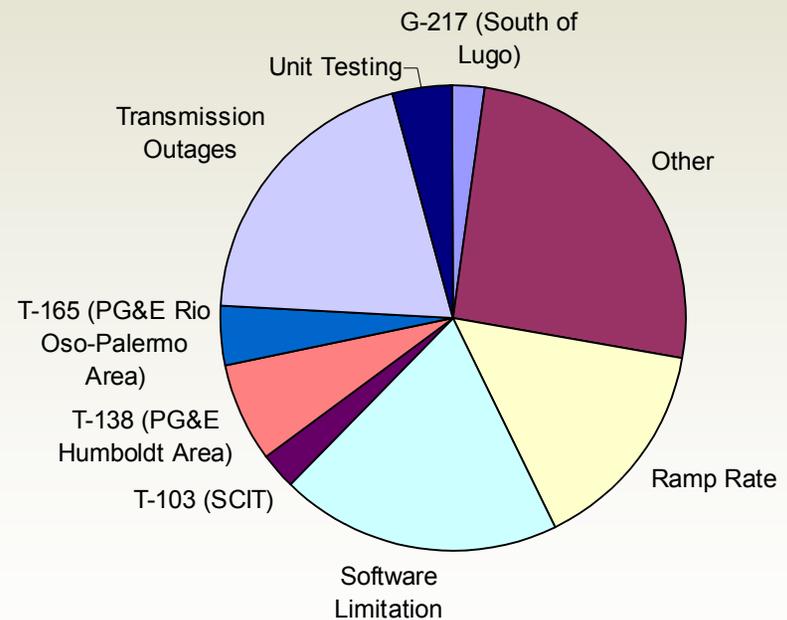
# Transmission outages, modeling gaps, and market software issues are primary drivers of ED

## Frequency (# of Unit Days) of ED by Reason for DA and RT (Apr - Jun 2009)

### Day Ahead

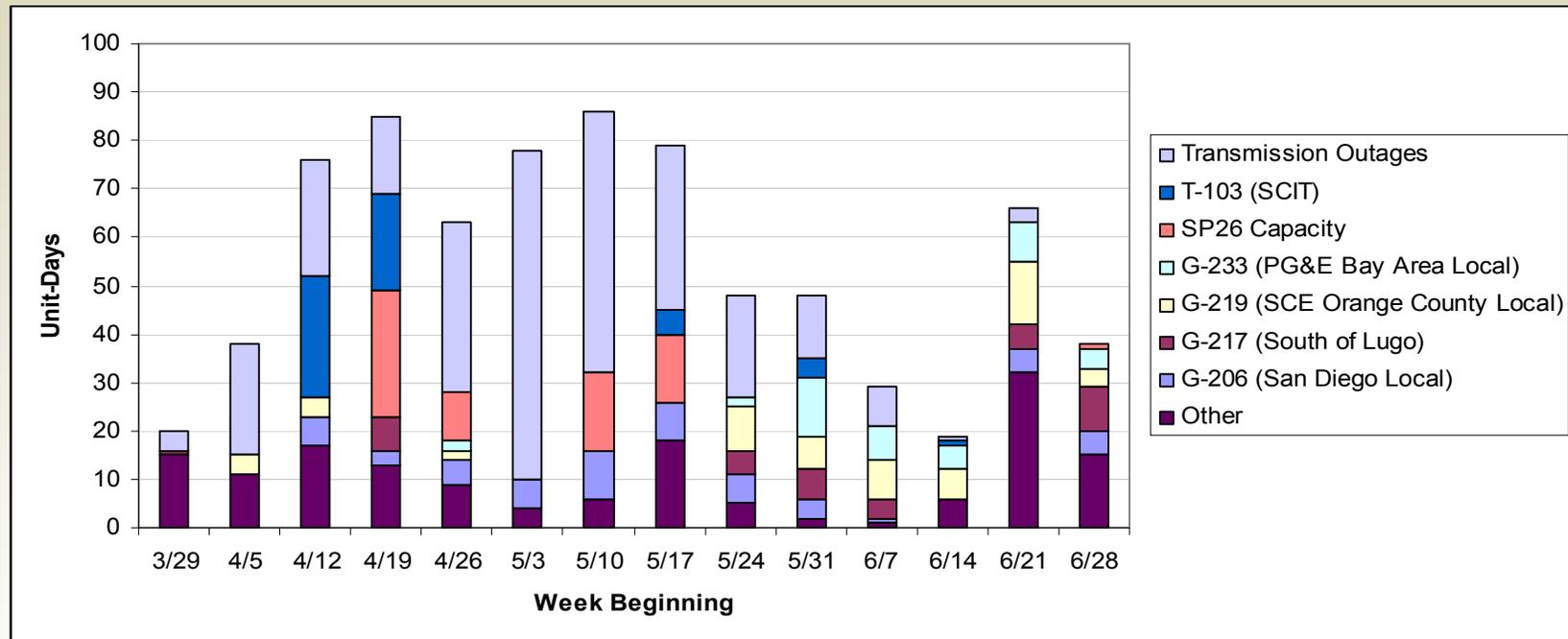


### Real Time



# Overall downward trend in frequency of day-ahead ED since May.

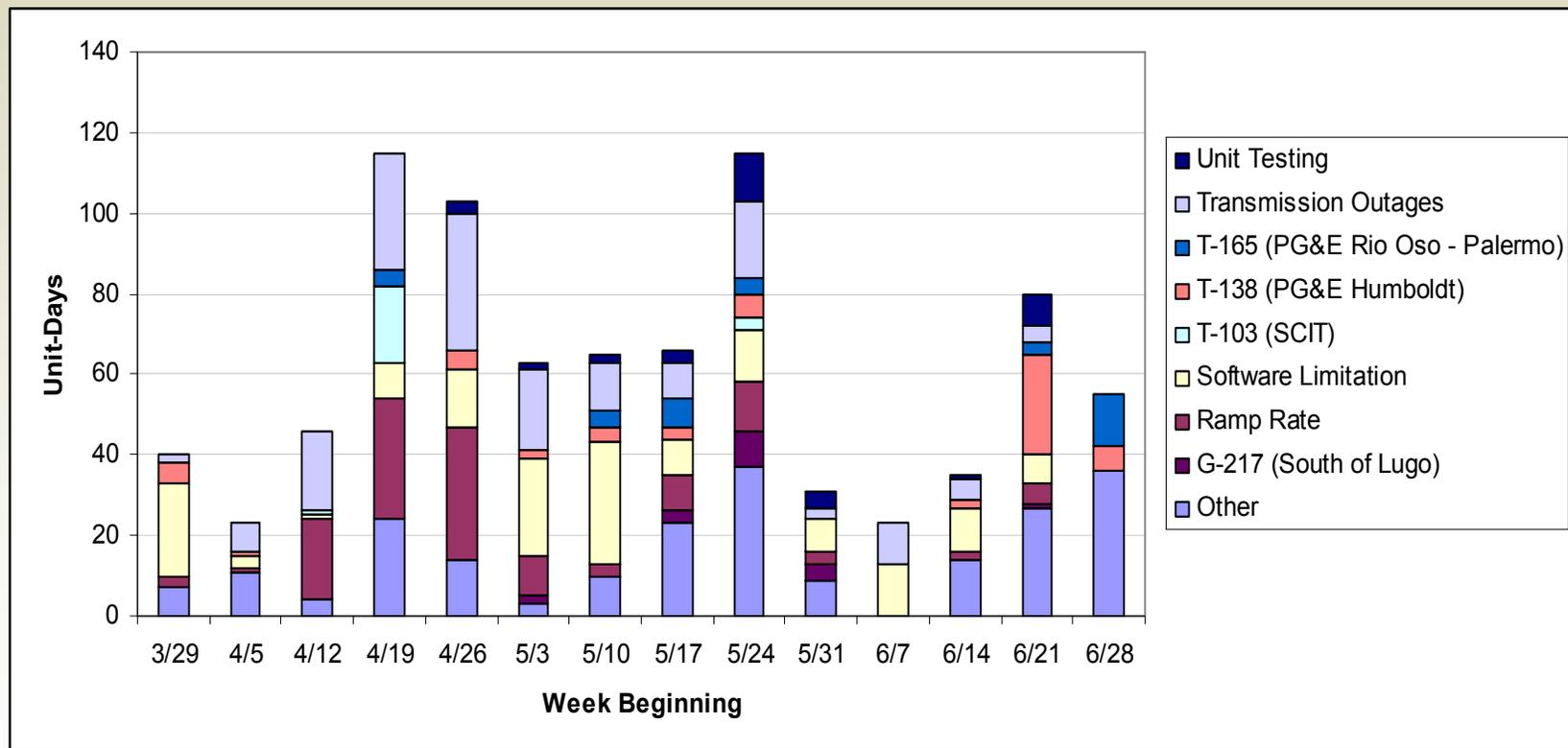
**Weekly Frequency (Unit Days) by Reason – ED Day Ahead Unit Commitment**



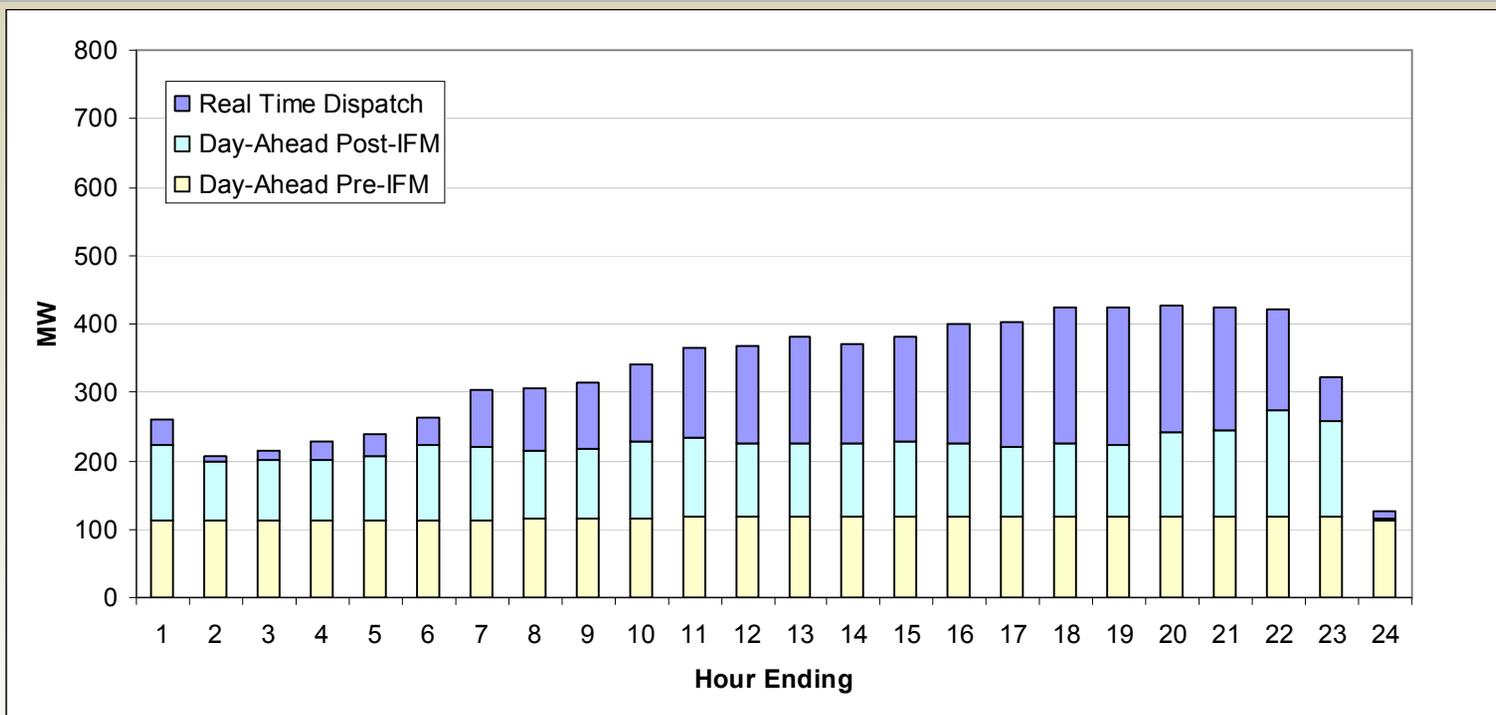
- Palo Verde-Devers and SWPL transmission outages was primary driver in May.
- Late June heat wave resulted in increased ED (“Other” category includes system capacity).

# Overall downward trend in frequency of real-time ED since May.

## Weekly Frequency (Unit Days) by Reason – Real-Time ED energy dispatch

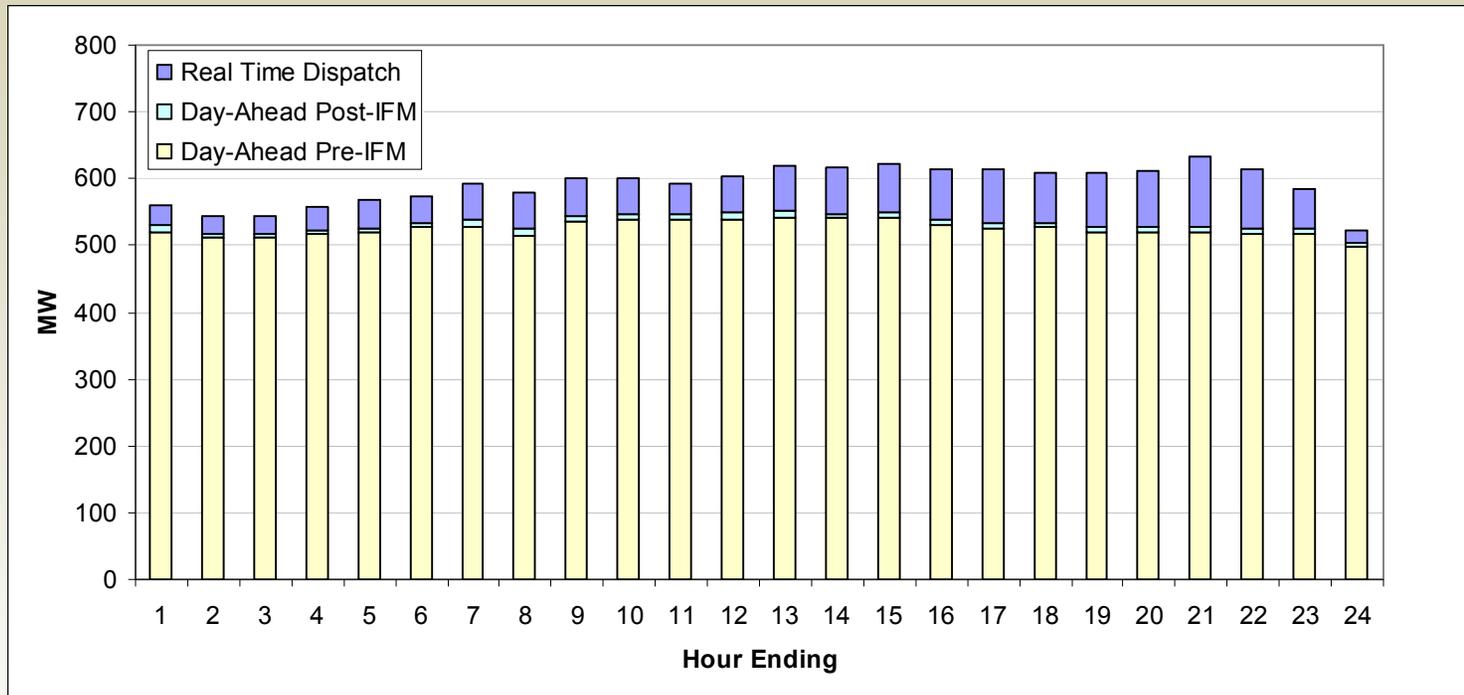


# Hourly Profile of Energy from ED - April 2009



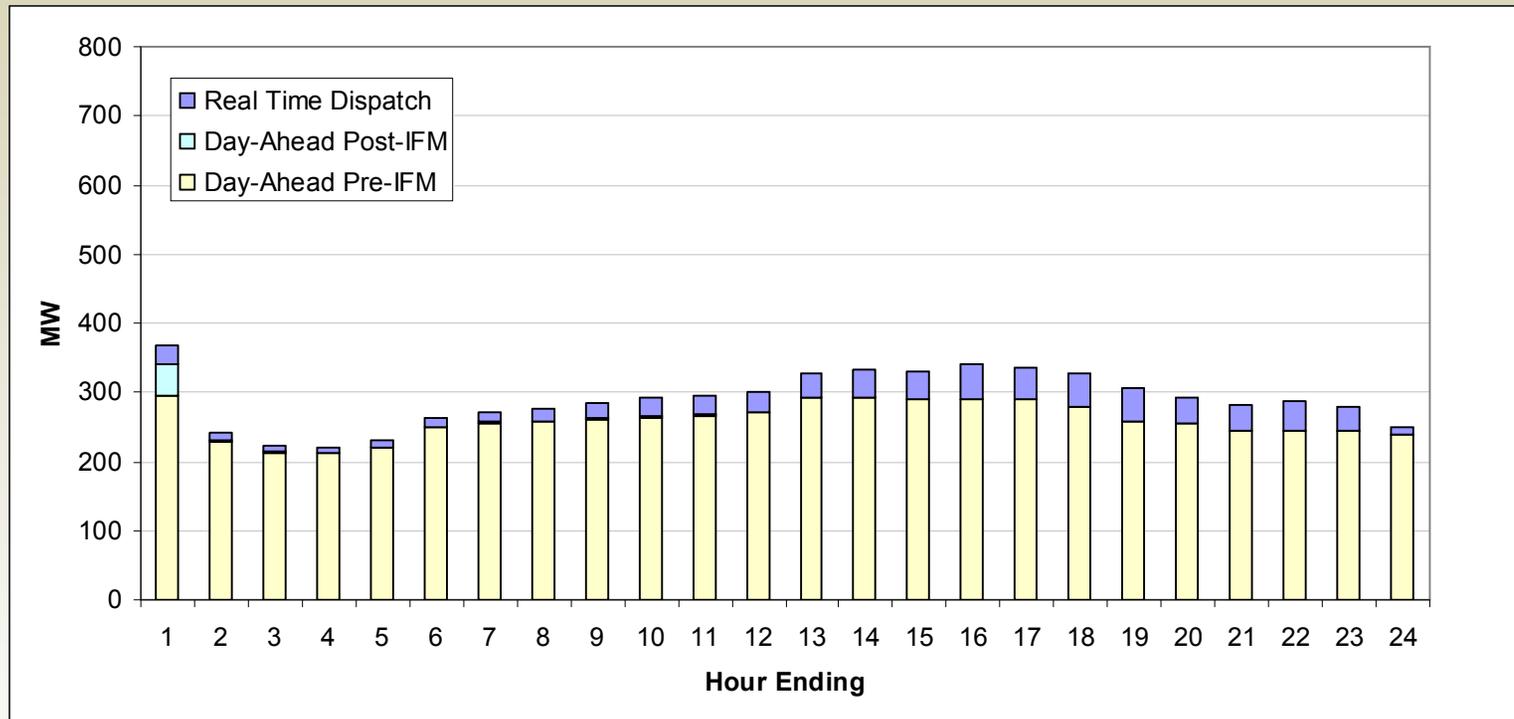
- Average ED energy evenly split between minimum load and energy above minimum load.
- Pre-IFM ED commitment began April 20

# Hourly Profile of Energy from ED -May 2009



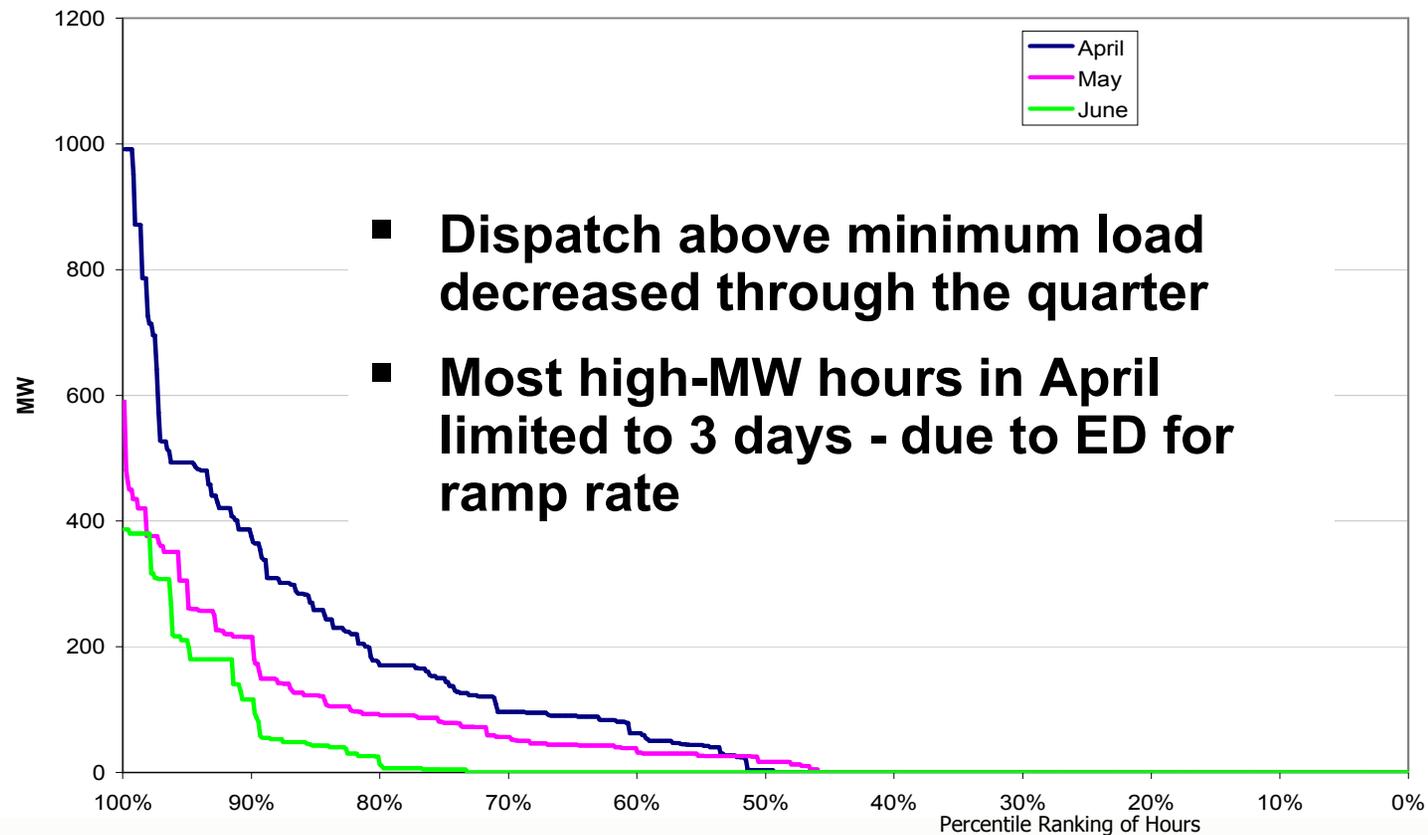
- Average hourly energy peaked in May - primarily from minimum load.
- Week of May 10 – most of ED commitment (PV-Devers and SWPL transmission outages).

# Hourly Profile of Energy from ED - June 2009



- Energy from ED in June was half of May volume.
- Minimal energy over minimum load.

# Monthly Duration Curves of Real-Time ED energy instructions above Minimum Load



# Exceptional Dispatch

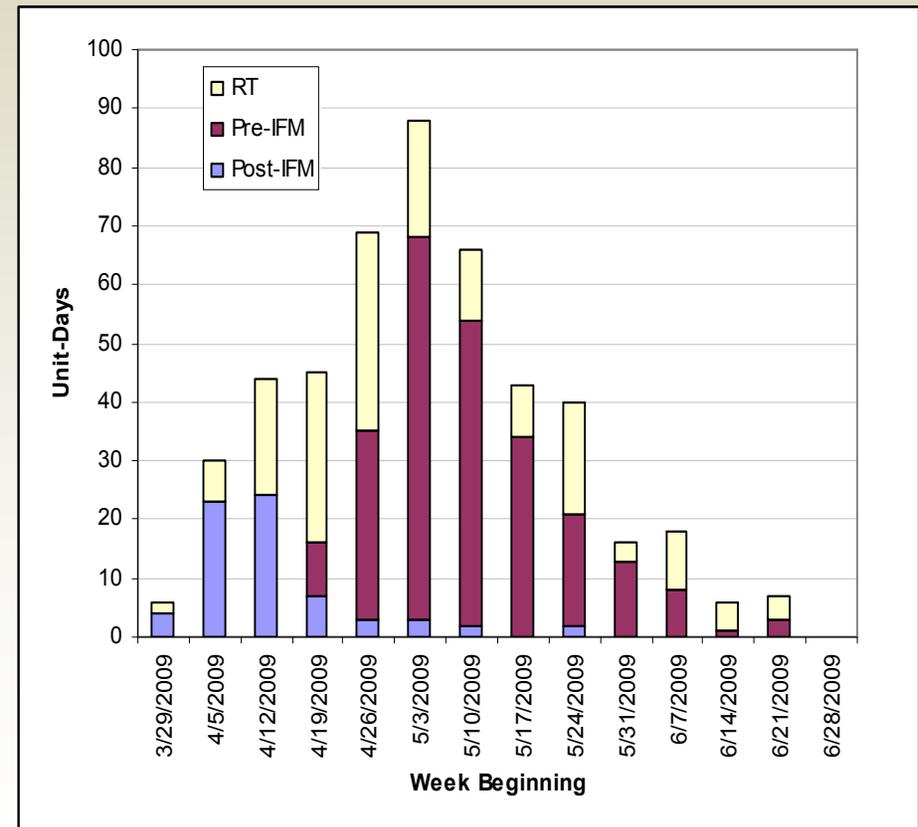
## Profiles of Select Dispatch Reasons

# Exceptional Dispatch for Transmission Outages – Frequency and Reasons

## Reasons

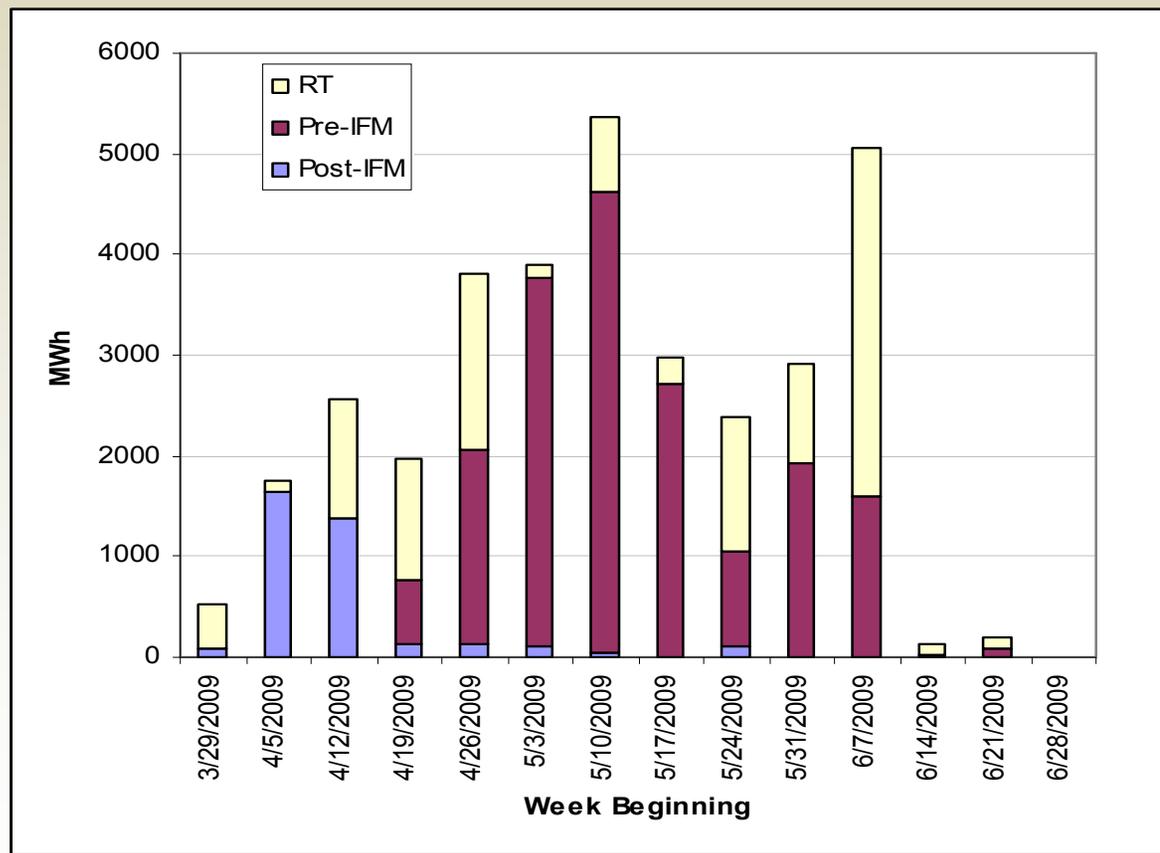
- Devers-Valley 500kv
  - out April 6-29
  - up to 8 commitments/day
- Devers-Palo Verde 500kv
  - out May 2-6
  - up to 12 commitments/day
- SWPL
  - out May 8-18
  - up to 11 commitments/day
- Pittsburg 230kv bus
  - out May 18-21
  - 1 commitment/day
- Contra Costa-Lone Tree (East Bay)
  - out May 23-June 10
  - up to 3 commitments/day
- Ignacio-Sobrante 230kv (East Bay)
  - out May 30-June 6
  - up to 2 commitments/day

## Weekly Frequency



# Exceptional Dispatch for Transmission Outages – Energy Volumes

## Weekly Energy (Gross MWh)

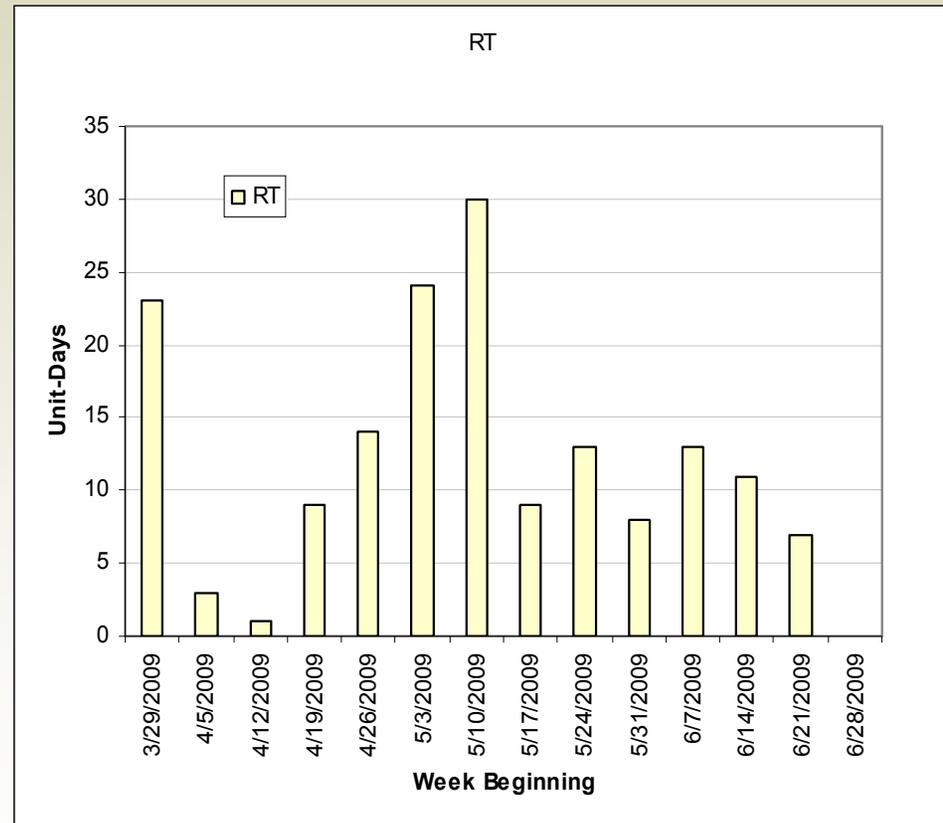


# Exceptional Dispatch for Software Limitations – Frequency & Reasons

## Reasons

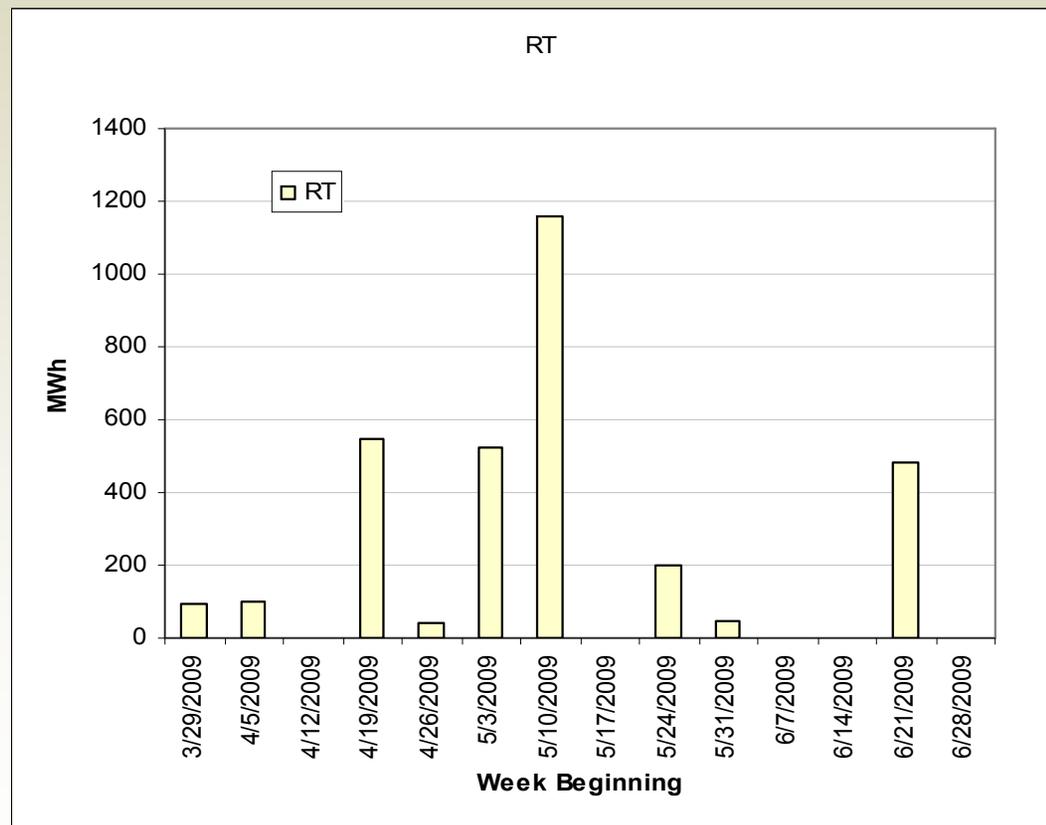
- Real-time reason only
- Used to override erroneous software-generated startup and shutdown instructions.
- NOT due to failures in automated dispatch system communicating instructions.

## Weekly Frequency



# Exceptional Dispatch for Software Limitations – Energy Volume

## Weekly Energy (Gross MWh)

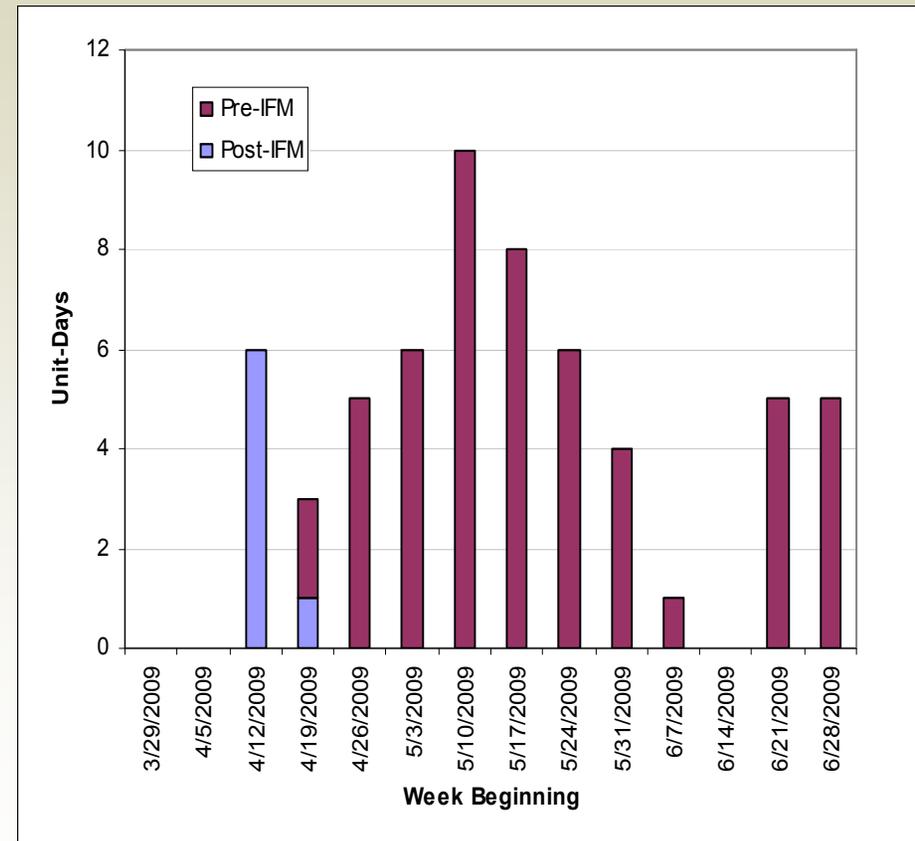


# Exceptional Dispatch for G-206 (San Diego Local) - Frequency & Reasons

## Reasons

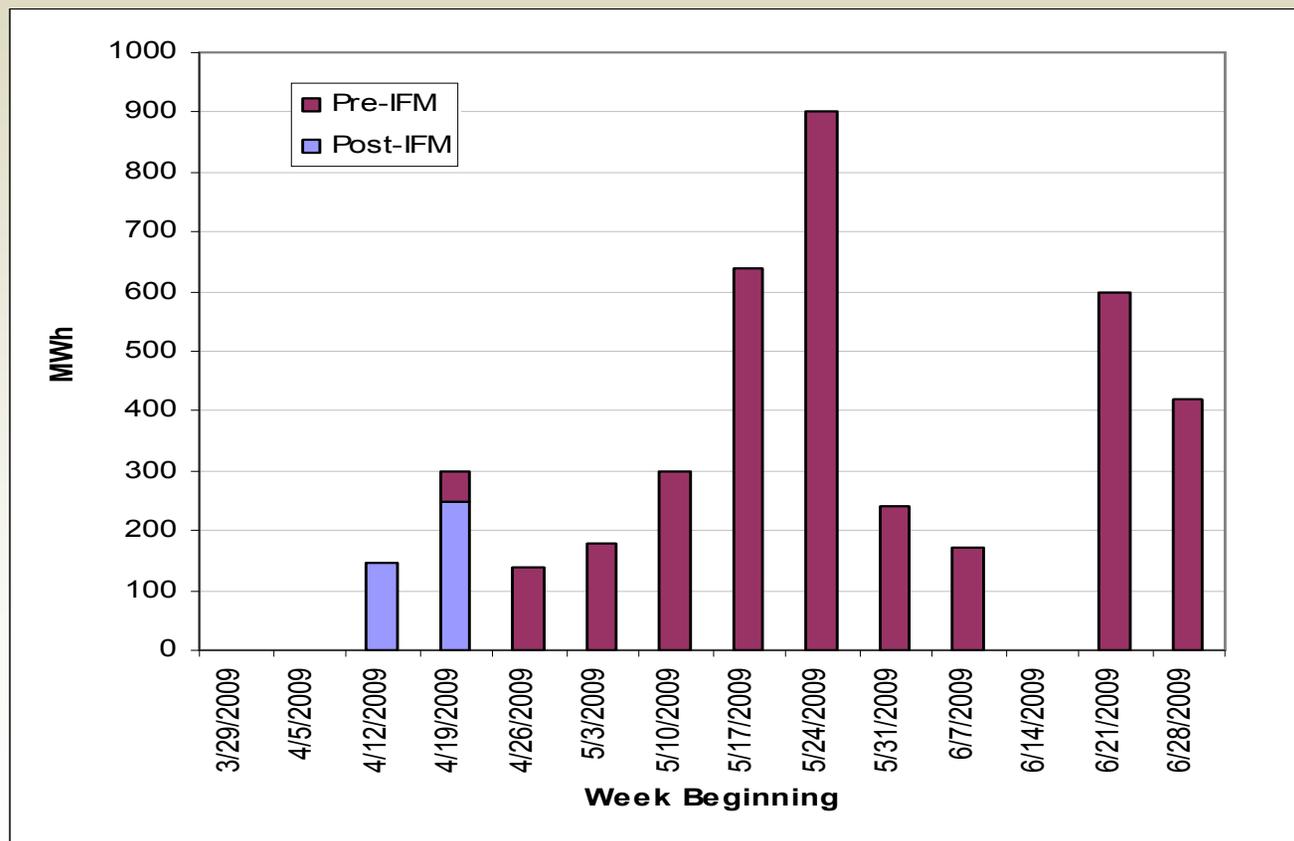
- Unit commitment based on Operations Engineers' daily transmission network analysis
- Primarily for voltage support and contingencies
- Ongoing clearances in San Diego area required support through much of April and May

## Weekly Frequency



# Exceptional Dispatch for G-206 (San Diego Local) - Energy Volume

## Weekly Energy (Gross MWh)

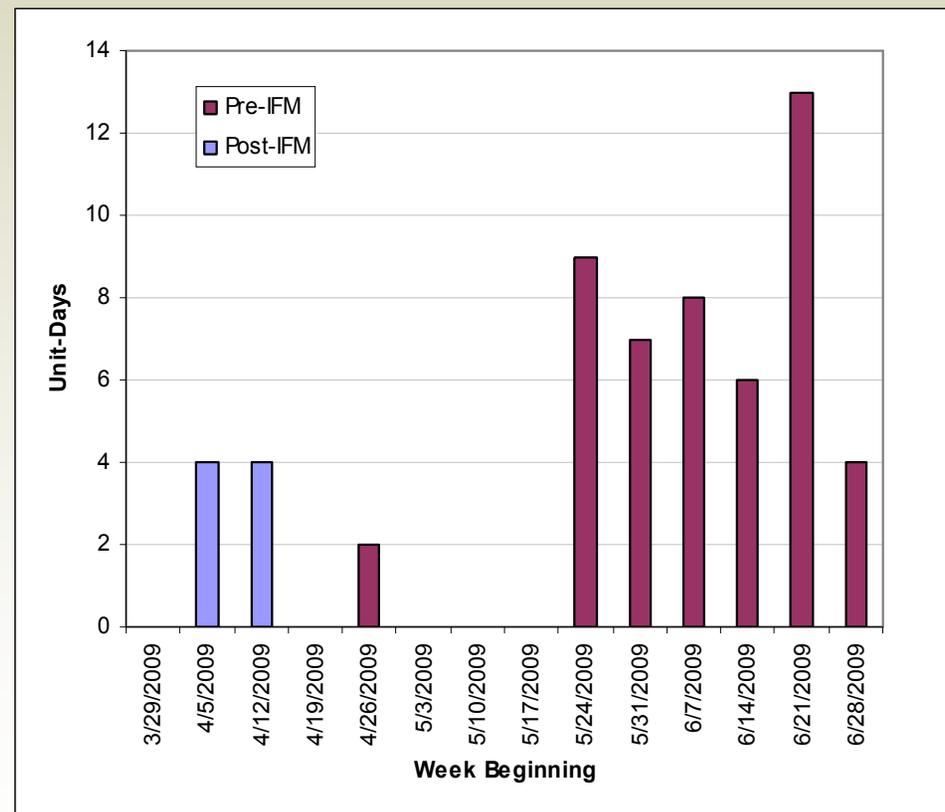


# Exceptional Dispatch for G-219 (SCE Orange County Local) – Frequency and Reasons

## Reasons

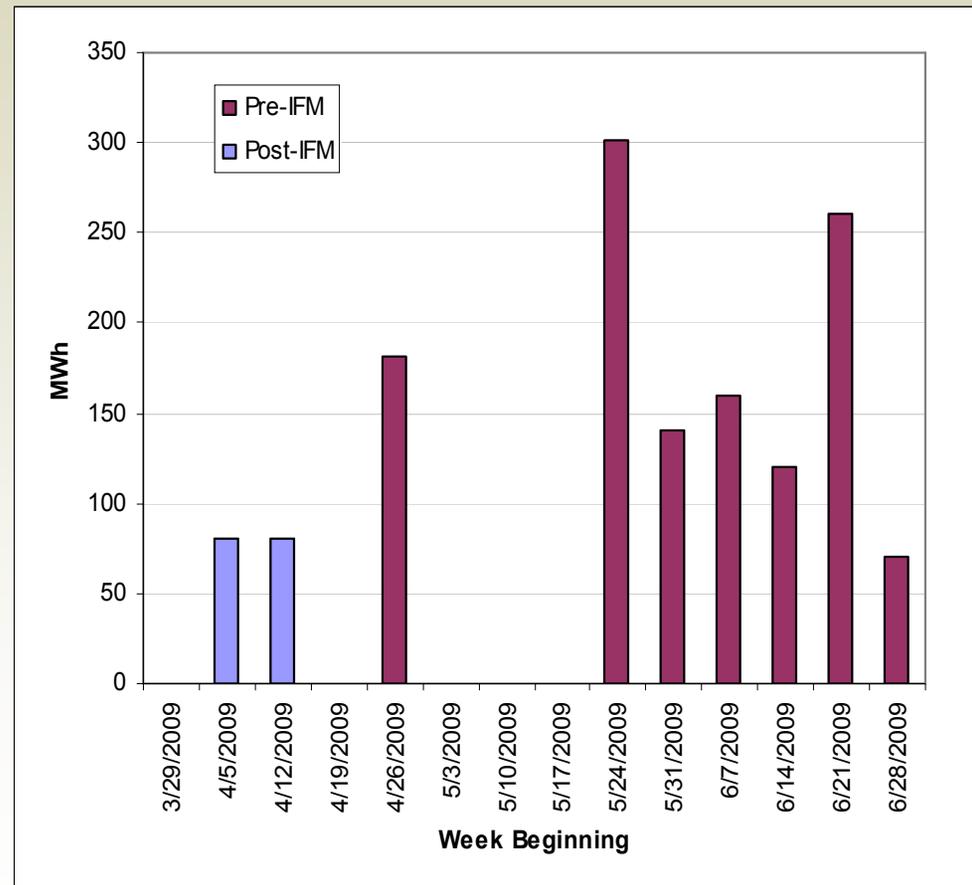
- Commitments issued prior to G-217
- Local area voltage and capacity requirements
- Approximately 1 to 2 units committed per day

## Weekly Frequency



# Exceptional Dispatch for G-219 (SCE Orange County Local) – Energy Volume

## Weekly Energy (Gross MWh)

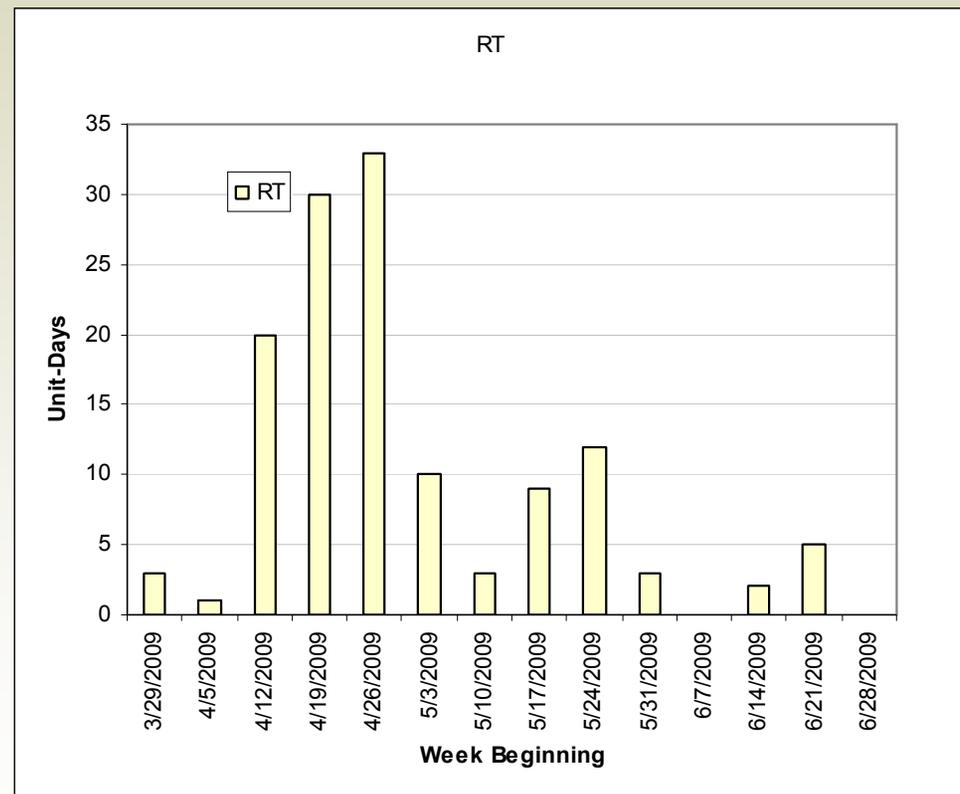


# Exceptional Dispatch for Ramp Rate – Frequency and Reasons

## Reasons

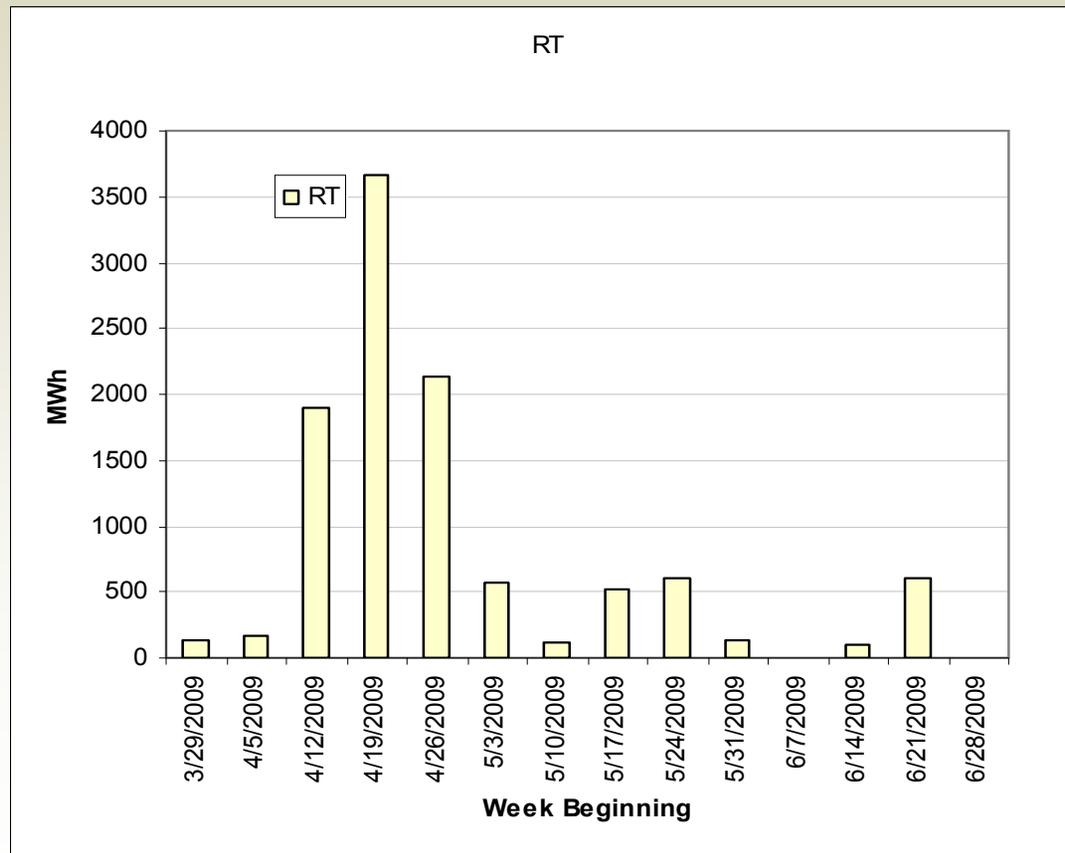
- RT instruction only
- Brings units that are committed at minimum load to a higher output level that has greater ramping capability
- ED in April and May particularly to units committed for transmission outages

## Weekly Frequency



# Exceptional Dispatch for Ramp Rate – Energy Volume

## Weekly Energy (Gross MWh)

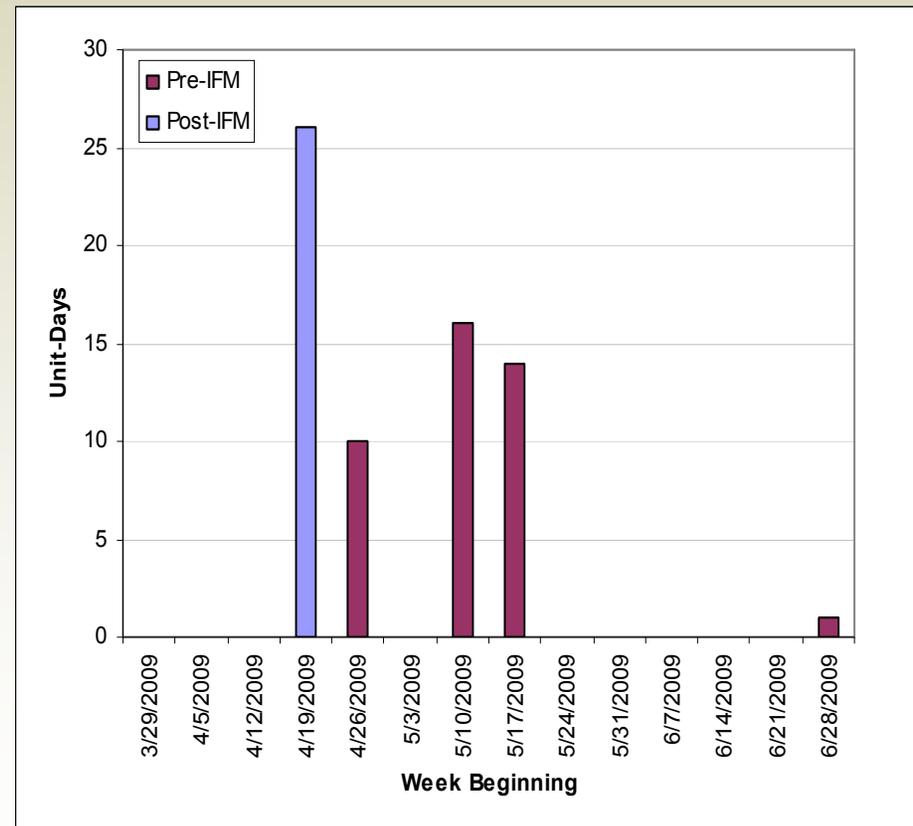


# Exceptional Dispatch for SP26 Capacity – Frequency and Reasons

## Reasons

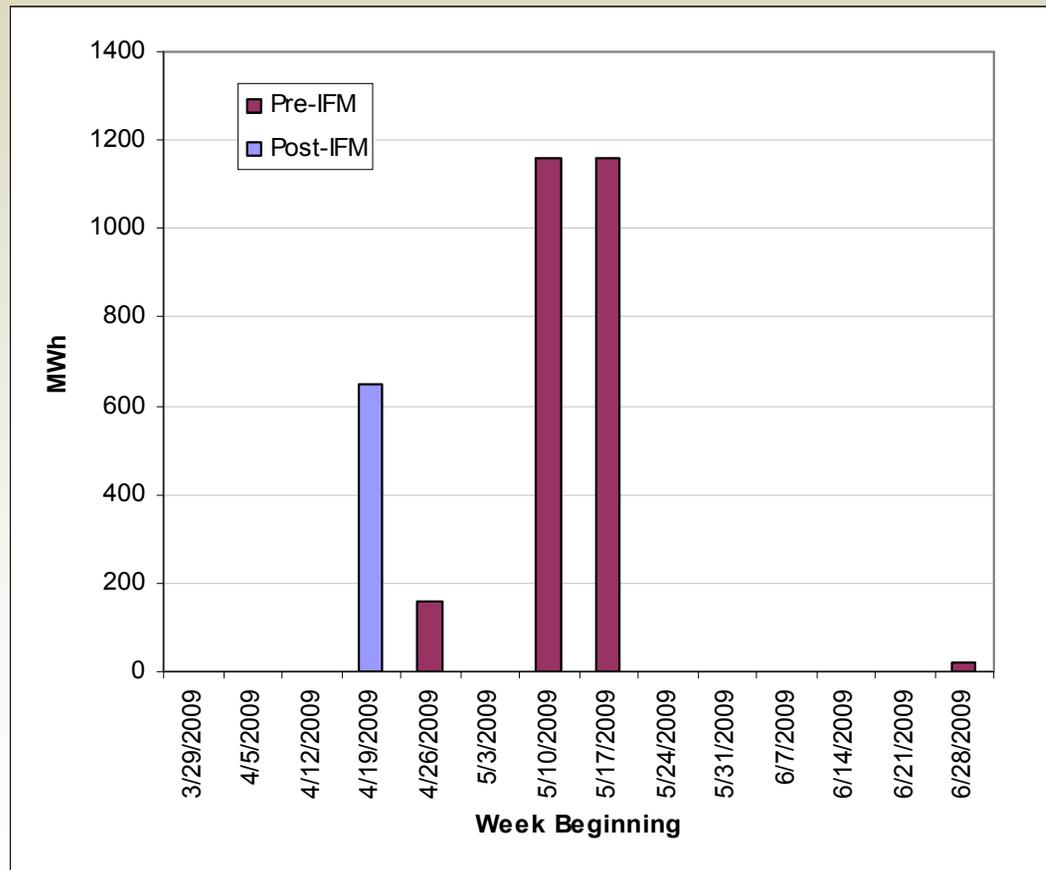
- SP26 capacity requirement
- Long-start unit held on for multiple days in May

## Weekly Frequency



# Exceptional Dispatch for SP26 Capacity – Energy Volume

## Weekly Energy (Gross MWh)

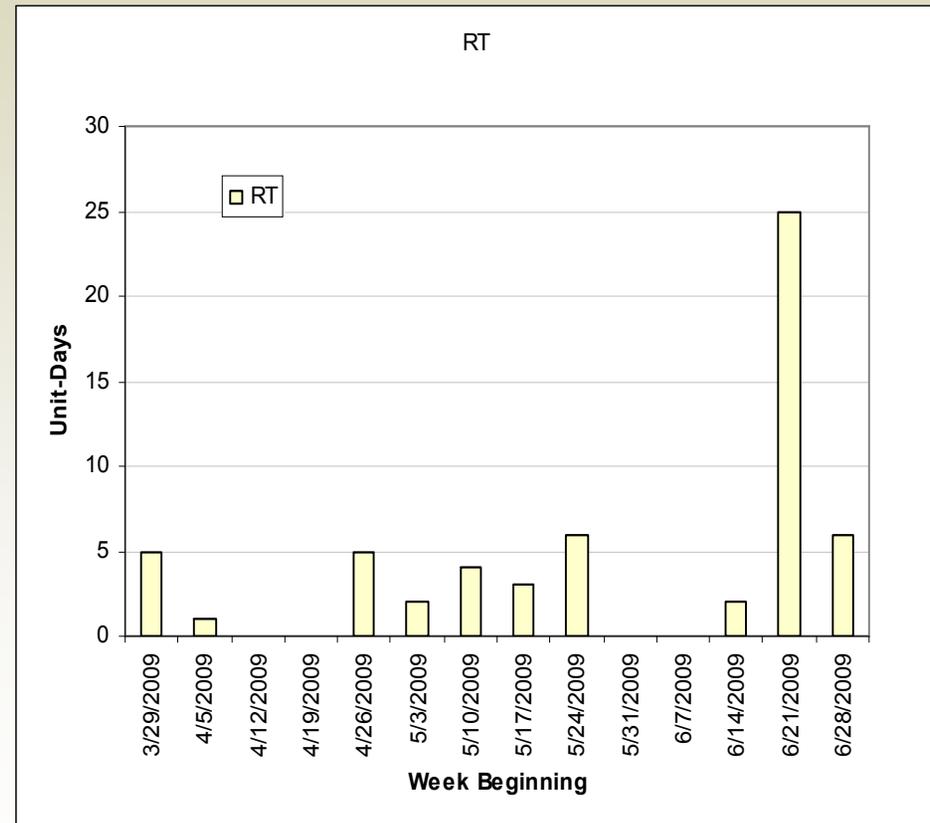


# Exceptional Dispatch for T-138 (Humboldt Area) – Frequency & Reasons

## Reasons

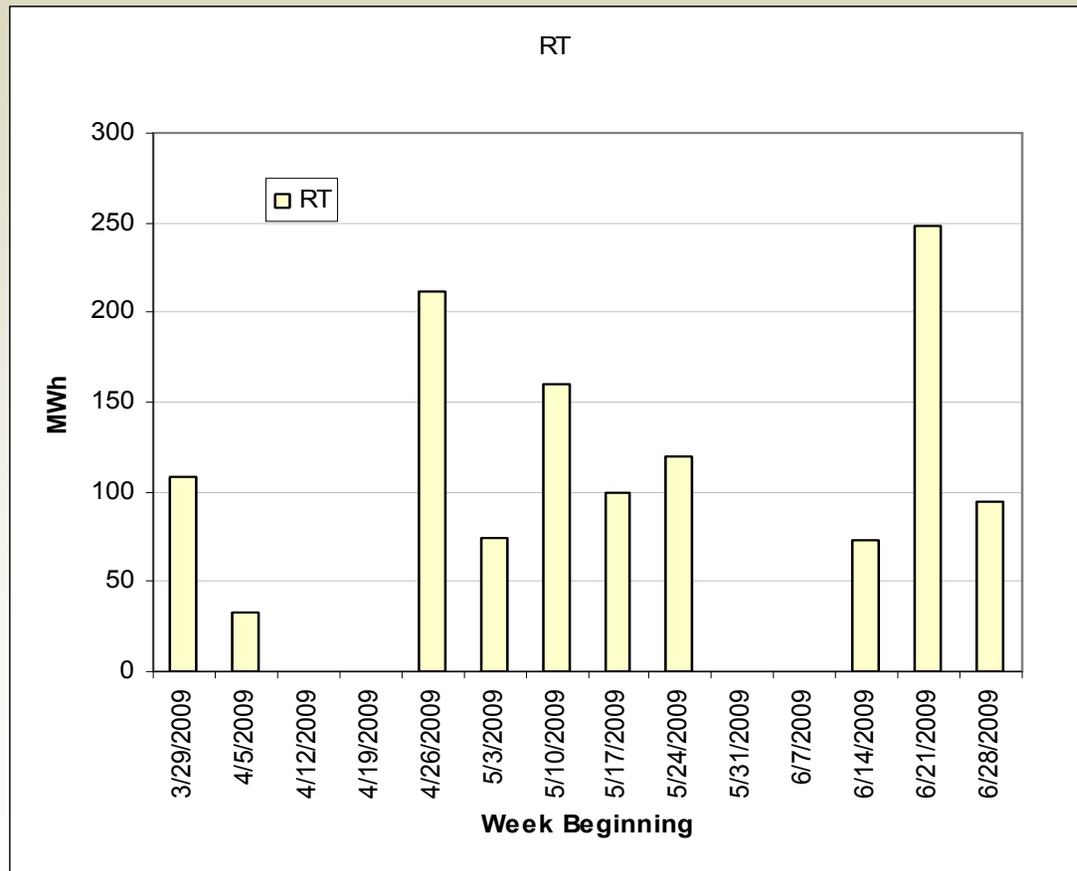
- Modeling issues in Humboldt usually due to inaccurate modeling of QF resources and frequent deviations from schedules
- Many dispatches of Humboldt resources are small movements of 0 to 20 MW
- Some resources require nightly ED shutdown

## Weekly Frequency



# Exceptional Dispatch for T-138 (Humboldt Area) – Energy Volume

## Weekly Energy (Gross MWh)



# Recommendations – Reducing Reliance on Exceptional Dispatch

- Test day-ahead pre-IFM unit commitment to determine whether pre-committed resources could be committed by the market
  - Ongoing transmission outages in particular may not require ED commitment
  - Validate / confirm assumptions about unit commitment for voltage support.
- Develop methods for including more generation requirements in market constraints

## Recommendations – Reporting and Monitoring

- Improve logging and recording of ED so that dispatch time, market interval, specific reason, and information about competitive constraints is clear
- ISO ED Project Team is developing integrated full-featured IFM/RTN ED interface
- Will include SLIC data integrated with market data and competitive path information (for mitigation)
- Facilitates logging and reporting best practices for ED

# References

- CAISO Tariff Section 34.9 – general
  - <http://www.caiso.com/23b2/23b2c9d974c00.pdf>
- ED Technical Bulletin – more specific
  - Provides overview of categories and settlement rules
  - <http://www.caiso.com/23ab/23abf0ae703d0.pdf>
- Operating Procedures M-402, M-402a, M-402b, S-318
  - Currently being updated with additional information on instruction type codes: undergoing review by ED project
  - M-402 series at <http://www.caiso.com/thegrid/operations/opsdoc/marketops/index.html>
  - S-318 at <http://www.caiso.com/thegrid/operations/opsdoc/sched/index.html>

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each party on the official service list for the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. on this 21<sup>st</sup> day of July, 2009.

/s/ Bradley R. Miliauskas  
Bradley R. Miliauskas