Stakeholder Comments Template

Subject: Exceptional Dispatch – Straw Proposal

PG&E Comments

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.

General Comments

Consistent with previously provided comments, PG&E continues to support the CAISO proposal that provides important mitigation for units receiving Exceptional Dispatches under MRTU. Specifically, units receiving Exceptional Dispatches for energy for any non-system level reliability requirements that cannot be otherwise addressed through RealTime Market (RTM) software, under the CAISO proposal, would be paid the higher of a) the Default Energy Bid (DEB), or b) the LMP at the unit's location (eliminating the third 'higher of' component based on the unit's energy bid price). This general mitigation measure should not be restricted to either RA/ICPM/RMR or non-RA/ICPM/RMR units, exceptional reliability needs of the CAISO should not result in the un-checked exertion of substantial market power by any critically required resource.

In the latest revised proposal of April 14, 2008, the CAISO has proposed two options that would provide an opportunity for supplemental revenues for non-RA/ICPM/RMR resources committed under Exceptional Dispatch, an 'energy bid adder' approach (Option 1) and an 'unmitigated' alternative (Option 2), both of which would be capped on a monthly basis at a level consistent with ICPM payment provisions ($41/kw-yr). While suggesting that added payments are necessary to provide a contribution towards fixed cost recovery for resources not under RA, ICPM or RMR agreements, the CAISO has provided no supporting evidence or justifications that

sufficient revenues are not otherwise available through LMP margins, RUC, Ancillary Services or through bilateral market transactions.
Without a demonstrated and substantiated need, and with the possibility that added Exceptional Dispatch payments, if not designed correctly, may inadvertently alter supplier incentives to participate in bilateral or CAISO spot markets, PG&E does not support any of the added payment options. However, recognizing that the CAISO may nonetheless proceed in this direction, outlined below are PG&E preferences with these alternatives along with other detailed comments on the latest CAISO proposal.

1. Option 1 – Bid Adder Option
   While not convinced that any supplemental payments are warranted, the use of an energy bid adder consistent with the currently approved Frequently Mitigated Unit (FMW) bid adder seems to be the preferable alternative of the two proposed options, *if* provisions exist that such an adder is applied only to incremental Exceptional Dispatches (and not including base unit commitment output at minimum load). Start-up and minimum load bidding opportunities and compensation are addressed by other tariff provisions; the FMU should not apply here. The proposed use of $24/MWhr is supported and this figure is already planned and approved for FMU payments.

   While the use of Exceptional Dispatch has been expected to be infrequent, as the understanding of possible circumstances leading to Exceptional Dispatch has increased, there is some growing uncertainty with respect to this assumption. Further, the CAISO has indicated that it is not possible to predict with any accuracy the frequency or duration of Exceptional Dispatches under MRTU, and to what extent this would involve non-RA/ICPM/RMR resources. Given this uncertainty, PG&E strongly supports the newly proposed provisions that would establish monthly revenue caps for Exceptional Dispatch resources, consistent with compensation available through the ICPM (based on $41/kw-yr). This added provision is an important element necessary to avoid creating possible unintended distortions in the willingness of resources to accept the optional ICPM designations or within bilateral market negotiations.

2. Option 2 – Relaxed Mitigation Option
   Oppose. The relaxed mitigation option (considered only with the essential revenue capping provisions consistent with Option 1) is not supported since this approach provides an undesirable opportunity for Exception Dispatch resources to reach the proposed revenue caps too quickly (hours) such that considerations to accept ICPM designations (or possibly even the timing of bilateral deals) could be adversely effected.

   PG&E agrees with the CAISO statements that "The obvious weakness with this approach is that it rewards local market power. Clearly a unit with substantial local market power subject to Exceptional Dispatch would be able to hit the revenue caps after just a few short hours."[1] Exceptional Dispatch and ICPM monthly payments are both individually capped (based on the $41/kw-yr target established within ICPM), but the cumulative total is not. Achieving the revenue cap in just a few hours could conceivably encourage rejection of an initial ICPM designation, with some anticipation of a future ICPM acceptance; however only after the resource provider has allowed the Exceptional Dispatch payments to reach the payment cap. Monthly revenue would include the Exceptional Dispatch capped payments (equal to ICPM), and the monthly ICPM payment – effectively creating the possibility of a double ICPM payment. Depending on the term of the ICPM designations, this situation could recur on a monthly basis. In addition to possible detrimental impacts to bilateral negotiations, Option 2 creates the unwanted possibility of these 2x ICPM based payments and should be avoided.

3. Effect of the Exceptional Dispatch options on incentive to accept or decline ICPM designation
   Without the proposed revenue caps, either Option 1 or Option 2 would likely compromise the ability of the CAISO to secure needed resources when ICPM designations were necessary, resources owners with locational market power and with some understanding of the reliability needs of the CAISO would likely seek the unlimited compensation possibilities available through Exceptional Dispatch. It is important to assure that incentives are not inadvertently created that would have resources avoid ICPM designations; ICPM under such circumstances promotes a higher level of market integrity and system reliability than the use of Exceptional Dispatch and should be preferred and encouraged.

   PG&E supports the CAISO proposal to establish revenue caps for both Options. The revenue caps, specifically tied to the compensation available through an ICPM, will substantially increases the incentives to accept an ICPM designation when required by the CAISO. Compensation caps targeted at any higher level other than ICPM may not achieve this result. As indicated above, Option 2 is less effective than Option 1 in this regard since the possibility of double payments may delay the acceptance of an ICPM designation.

4. Types of Exceptional Dispatch that should or should not be eligible for supplemental payments or subject to relaxed mitigation
   All resources should be subject equally to the proposed Exceptional Dispatch mitigation procedures, however to the extent that supplemental payments are considered, PG&E supports limiting such payments only those non-RA/ICPM/RMR resources. The CAISO has indicated that such added payments are necessary for these specific resources in order to provide a contribution towards fixed cost recovery that would otherwise be provided through RA, ICPM or RMR agreements. While not convinced that any supplemental payments are necessary, limiting such payments to the non-RA/ICPM/RMR (subject to all other proposed eligibility provisions) is supported by PG&E. The special treatment of RA/ICMP/RMR units

[1] CAISO Straw Proposal, Exceptional Dispatch: Options for market Power Mitigation and Supplemental Pricing, 4/14/08, page 15.

is already well established within MRTU, including RUC commitment and compensation, Frequently Mitigated Unit bid adders, must offer obligations, and ICPM designations differences. It would not be inconsistent to provide special Exceptional Dispatch compensation (intended to contribute towards fixed cost recovery) that is limited only to non-RA/ICPM/RMR resources.

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

   Support. The CAISO proposal must not create incentives to avoid market participation by providing potentially higher compensation available through Exceptional Dispatch (for example, a needed local resource that would otherwise be mitigated under local market power provisions of the IFM – paid at the higher of the DEB or LMP - should not be eligible for the Exceptional Dispatch supplemental payment – paid at the higher of the DEB+$24 or LMP; such a supplemental payment could encourage physical withholding and undermine the viability of the IFM). The requirement to submit market bids as a precursor for any supplemental Exceptional Dispatch payments minimizes this concern and is supported by PG&E.

6. General comments

   See above.