

**Comments of Pacific Gas and Electric Company
On the ‘Mitigation of Potential Market Power Under MRTU Exceptional
Dispatch Provisions’**

PG&E provides these brief comments in response to the November 30, 2007 CAISO Department of Market Monitoring (DMM) whitepaper and proposal on ‘Mitigation of Potential Market Power Under MRTU Exceptional Dispatch Provisions’.

PG&E supports mitigation provisions for Exceptional Dispatch as proposed by the DMM; the circumstances requiring Exceptional Dispatch may be more frequent than the whitepaper suggests, however this would only further highlight the need for the proposed mitigation measures.

Background

Under circumstances that reliability constraints cannot be resolved through the market (software), the CAISO has the authority to dispatch resource adequacy (RA) and non-RA resources under Exceptional Dispatch MRTU tariff provisions. Payments for incremental energy provided under Exceptional Dispatch would be paid the higher of a) the unit’s energy bid price, b) the unit’s default energy bid (DEB), or c) the LMP at the unit’s location. Since the Exceptional Dispatches will occur outside of the CAISO markets, the unit’s energy bids would not be subject to any market power mitigation beyond the prevailing energy bid caps (rising to \$1000/mwhr).

The DMM has proposed that units receiving Exceptional Dispatches for energy for any non-system level reliability requirements that cannot be otherwise addressed through RealTime Market (RTM) software would be paid the higher of a) the DEB, or b) the LMP at the unit’s location.

Comments and Recommendations

The proposal to allow a measure of bid mitigation under Exceptional Dispatch circumstances is needed and supported.

It appears however that the need for Exceptional Dispatches is not necessarily as infrequent or restricted to the circumstances outlined in the whitepaper. The DMM indicated (referencing an October 22, 2007 CAISO staff paper) that the use of Exceptional Dispatches will be limited and driven principally by modeling limitations that cannot always reflect dynamic outages or missing local reliability constraints such as voltage and SP26 dispatchable energy requirements. The DMM examples indicate that while bids are available, the software is unable to select these necessary bids – resulting in the need to use Exceptional Dispatch (and the need to provide some bid mitigation provisions). These circumstances and limitations are characterized either as very short-term, or as those that can be resolved indirectly through other modeling constraints. PG&E does not dispute these examples. In fact, PG&E is concerned that the need for Exceptional Dispatches could be more persistent. As a result of possible ‘significant events’ (e.g. major transmission or generator outages) or due to collective local RA

deficiencies (e.g. ‘effectiveness’), the CAISO may not have the needed resources to address non-system reliability requirements offered into the markets – either through RA must offer, the proposed Interim Capacity Procurement Mechanism (ICPM), RMR or non-RA market resources. If the specific, needed local resources are not offered into the CAISO markets, the CAISO may be forced to utilize Exceptional Dispatch on an extended basis. This possibility increases the need to implement appropriate mitigation for Exceptional Dispatches.

An open question is how RTM market pricing will be established during exceptional dispatch situations? PG&E requests additional details on whether, and if so how, LMP prices are to be administratively set during situations where the CAISO must rely on non-system resources not otherwise available in the CAISO markets (e.g. absent the required non-system unit(s), would the RTM resort to uneconomic market clearing and associated pricing, or would the relevant DEBs be unilaterally inserted by the CAISO). Since the DMM proposal would mitigate Exceptional Dispatch payments to the higher of the DEB or the relevant nodal LMP, it important to understand possible values of the relevant nodal LMP. Once it understands these additional details, PG&E may consider the submission of further comments and supplemental mitigation recommendations.

Conclusion

PG&E concurs with the DMM that additional measures are needed to address the mitigation of energy bids used for Exceptional Dispatches, and supports the DMM proposal.

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