

## **Summary and Initial Response to Stakeholder Comments**

### **DMM Whitepaper on Mitigation of Potential Market Power Under MRTU Exceptional Dispatch Provisions**

**January 3, 2008**

#### **I. Summary of Comments**

The CAISO's Department of Market Monitoring (DMM) issued a whitepaper on November 30, 2007 discussing a proposed approach for mitigating potential market power under the Exceptional Dispatch provisions of the current MRTU tariff.<sup>1</sup> Comments on the whitepaper were submitted by the following entities:

- Southern California Edison (SCE)
- Pacific Gas and Electric (PG&E)
- State Water Project (SWP)
- Constellation, NRG and Reliant Energy (jointly)
- Western Power Trading Forum (WPTF)

SCE, PG&E and SWP supported the proposed mitigation rule. However:

- PG&E requested additional details on how Exceptional Dispatches would impact LMPs, and noted that once it understands these additional details, PG&E may consider the submission of further comments and supplemental mitigation recommendations.
- SWP requests that the proposal should clarify if CAISO intends to consider market power mitigation of Exceptional Dispatches to address system reliability.

Meanwhile, the comments of Constellation/NRG/Reliant and WPTF did not support the proposed mitigation rule. Major reasons cited by these entities for not supporting the proposed mitigation rule included:

- The proposed mitigation of Exceptional Dispatches should be unnecessary due to Resource Adequacy (RA) and other capacity procurement mechanisms such as the Interim Capacity Procurement Mechanism (ICPM), and may undermine these other elements of market design.
- A demonstration of market power should be made prior to triggering any mitigation of Exceptional Dispatches.
- If implemented, the proposed mitigation should only apply to Exceptional Dispatches to relieve congestion on non-competitive constraints.

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<sup>1</sup> The DMM whitepaper and submitted stakeholder comments can be found at <http://www.caiso.com/1c89/1c89d76950e00.html>.

The following sections of this paper provide a response or more detailed discussion of these and other issues raised in stakeholder comments. Additional information on Exceptional Dispatches under MRTU is provided in the draft operating procedures for Exceptional Dispatches posted on the CAISO website.<sup>2</sup> An updated version of these draft procedures is scheduled to be posted on January 3, 2008.

## **II. Comments of PG&E**

PG&E supports the proposed mitigation, and is concerned that the need for Exceptional Dispatches could be more persistent than suggested in the previous CAISO filings and documents cited in DMM's November 30 whitepaper.

However, PG&E's comments suggest that there may be some misunderstanding or need for clarification of at least two key issues: (1) the conditions that may cause the need for Exceptional Dispatches, and (2) how Exceptional Dispatches for non-RA resources that are not bid into the CAISO markets may be settled.

### ***Reasons for Exceptional Dispatches of Non-RA Units***

Specifically, PG&E's comments explain that:

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.<sup>3</sup>

### ***DMM Comments***

The comments above suggest that it may be important to clarify that the Exceptional Dispatch mitigation rule proposed by DMM is not aimed at scenarios in which capacity offered in the market is insufficient to meet reliability requirements. Rather the mitigation rule is aimed at scenarios under which Exceptional Dispatches for additional energy (above minimum operating levels) may be needed to meet reliability requirements that are not directly incorporated in or satisfied by the MRTU software or model. In other words, the proposed mitigation is aimed at potential reliability requirements that are beyond the scope of the MRTU software or model to resolve – not bid insufficiencies.

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<sup>2</sup> See *M-405 Exceptional Dispatch - DRAFT Version 1.0*, <http://www.caiso.com/1c3a/1c3a92e028f80.doc>

<sup>3</sup> *Comments of Pacific Gas and Electric Company On the Mitigation of Potential Market Power Under MRTU Exceptional Dispatch Provisions*, December 12, 2007, pp 1-2.

RA requirements set by the CAISO are designed to ensure that the volume of capacity under RA/RMR or ICPM contracts is sufficient to meet local, zonal and system reliability requirements with a very high level of confidence. However, the amount of this RA/RMR or ICPM capacity actually dispatched for energy through the Day Ahead and Real Time Markets each operating hour will be determined through the MRTU software. As discussed in DMM's November 30 whitepaper, to the extent that some reliability requirements may not be directly or fully incorporated in the MRTU software, some Exceptional Dispatches for energy (above a unit's minimum operating levels) may be necessary to meet these reliability requirements on an operational basis. For example, the current Business Practice Manual (BPM) for Market Operations states that:

To be modeled in the market software, which uses linear optimization – a Nomogram must be piecewise-linear and convex. Where this is not the case, the Nomograms need to be enforced in other ways. For some cases, the Nomogram limits are based on specific contingencies, and CAISO can include the same contingencies in the market runs. Each market has the capability of modeling up to 150 contingencies, and including these contingencies gives the same outcome as if CAISO had modeled them as Nomogram limits....Complex Nomograms are part of some operating procedures, and some of these may be more difficult to include in the market software. In these cases CAISO enforces the Nomograms through monitoring by CAISO Operators and Exceptional Dispatch in RTM.<sup>4</sup>

Thus, even if all capacity within the CAISO system was under RA/RMR/ICPM contracts and was bid into the CAISO's markets, Exceptional Dispatches may in some cases be necessary to meet some reliability requirements that may not be directly incorporated in or fully satisfied by the MRTU market software.<sup>5</sup>

Furthermore, the MRTU tariff requires that the CAISO utilize bids into the market to the extent possible prior to issuing Exceptional Dispatches for resources without bids submitted in the market (MRTU Tariff Section 34.9.1).<sup>6</sup> Thus, it appears most likely that any Exceptional Dispatches that are issued will be to units that are under RA, RMR or ICPM contracts and/or have bids submitted into the CAISO market.

### ***Dispatch and Settlement of Exceptional Dispatches for RA versus non-RA Units***

The concerns expressed in PG&E's comments appear to reflect an assumption that units which are under RA, RMR or ICPM contracts and which receive Exceptional Dispatches would be paid less than any non-RA/RMR/ICPM units that receive Exceptional Dispatches.

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<sup>4</sup> *Business Practice Manual for Market Operations*, p. 50, <http://www.caiso.com/1c97/1c97c73c6c9e0.doc>

<sup>5</sup> As noted in DMM's November 30 whitepaper, specific reliability requirements that may not be directly incorporated in or fully satisfied by the MRTU market software include (1) requirements associated with outages that occur between the Day Ahead and Real Time Markets, (2) voltage stability requirements, and (3) requirements associated with ensuring sufficient 30-minute dispatchable capacity is on-line in SP26. (See pp. 2-3)

<sup>6</sup> Also, see *M-405 Exceptional Dispatch - DRAFT Version 1.0*, <http://www.caiso.com/1c3a/1c3a92e028f80.doc>

## ***DMM Comments***

This is not the case. Under both the current MRTU tariff and with the mitigation rule proposed by DMM, settlement provisions for Exceptional Dispatches would be the same for units under RA/RMR Condition 1 or ICPM contracts and non-RA/RMR/ICPM units.<sup>7</sup> However, as noted above, the MRTU tariff requires that the CAISO utilize bids into the market to the extent possible prior to issuing Exceptional Dispatches for resources without bids submitted in the market. Thus, it appears most likely that any Exceptional Dispatches that are issued will be to units that are under RA/RMR or ICPM contracts and/or have bids submitted into the CAISO market.

Under the MRTU tariff, if a participating generator does not bid into the CAISO market but receives an Exceptional Dispatch for energy (above minimum operating level), the unit will not have a market bid and will therefore not be eligible to be paid on an “as-bid” basis at an extremely high market bid price. Instead, under this scenario, any energy above its minimum operating level provided pursuant to an Exceptional Dispatch would be paid the higher of the LMP or the unit’s Default Energy Bid (DEB).

As noted in Footnote 5 on page 2 of DMM’s November 30 whitepaper, if an RA unit (i.e., subject to Must Offer) did not submit a bid for its full available capacity, the CAISO will insert an energy bid<sup>8</sup> equal to the unit’s DEB. For non-RA units, however, the MRTU system would not automatically insert DEBs for any capacity not bid into the CAISO market. Thus, under this scenario, a non-RA unit without a market bid would be paid the LMP for any energy provided pursuant to an Exceptional Dispatch.<sup>9</sup> To ensure that non-RA units without market bids recover their operating costs, one possible clarification to MRTU settlement rules is that under this scenario a non-RA unit would be paid the higher of the LMP or the unit’s DEB. In addition, non-RA units committed at minimum operating level and/or dispatched for additional energy through Exceptional Dispatches would also be eligible for Bid Cost Recovery payments.

Given the Exceptional Dispatch usage and settlement provisions described above, DMM believes that there is no connection between current or proposed Exceptional Dispatch provisions and the ICPM currently under discussion in a separate stakeholder process. This issue is further addressed in response to comments by Constellation/NRG/Reliant and WPTF on the connection between the proposed mitigation rule for Exceptional Dispatches and ICPM.

## ***Impact of Exceptional Dispatch on LMPs and Uneconomic Market Clearing***

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<sup>7</sup> RMR Condition 2 units called under Exceptional Dispatch per tariff rather than RMR Contract get paid their own special rate as per Section 11.5.6.3 of the MRTU Tariff. Thus, no mitigation is needed for RMR Condition 2.

<sup>8</sup> CAISO will not insert bids for RA resources under Must-Offer that are Use-Limited, or do not have the same level of RA obligation for all 24 hours of the day. In these cases the resource is responsible for bidding to meet its RA obligation.

<sup>9</sup> In other words, while the unit would be eligible to be paid the higher of its bid price or the LMP under the current MRTU tariff, a non-RA unit without any market bid or DEB would be paid the LMP.

Another question posed by PG&E is the impact of Exceptional Dispatch on uneconomic market clearing and market pricing. Specifically:

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 is 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.<sup>10</sup>

### ***DMM Comments***

The proposed mitigation would not affect how Exceptional Dispatches are made or the effect Exceptional Dispatch may have on uneconomic market clearing and market pricing. However, based on discussion with MRTU staff, the following clarifications may be made concerning the potential impact of Exceptional Dispatches on market pricing generally.

- Within the MRTU software, Exceptional Dispatches issued prior to the IFM or RTM are treated as a minimum operating constraint for the resource in subsequent market runs, and therefore are not included in the calculation of LMPs in any subsequent market runs. However, if a unit receiving an Exceptional Dispatch is dispatched by the market software above the minimum level established through the Exceptional Dispatch, the unit's bids for these additional energy dispatches are eligible to be included in the calculation of the LMP. Thus, from the perspective of market pricing, the ED functions just like any other resource that is self-committed and offered to the market with an economic energy bid.
- An Exceptional Dispatch issued after any market has run does not affect the optimization or the schedule or pricing resulting from that market, because the CAISO does not go back and re-run any aspect of a completed market to incorporate the ED in the market results.
- An ED issued prior to any market will typically reduce the need and the likelihood for uneconomic adjustment in that market because the ED (1) provides additional economic bids to that market, thus expanding the flexibility of the optimization to clear the market using economic bids, and (2) was undertaken to relieve an identified

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<sup>10</sup> *Comments of Pacific Gas and Electric Company On the Mitigation of Potential Market Power Under MRTU Exceptional Dispatch Provisions*, December 12, 2007, p. 2.

reliability concern that *might* otherwise have caused the optimization to resort to uneconomic adjustment.<sup>11</sup>

- If an Exceptional Dispatch is issued prior to a market, depending on its energy bids, the Exceptional Dispatch may displace other economic bids and thereby have an indirect impact on LMPs in subsequent market runs. For example, an Exceptional Dispatch for additional incremental energy issued after the IFM would have no effect on the IFM, but may have the effect of displacing some economic bids for incremental energy in the RTM and could thereby lower some real-time LMPs. Similarly, an Exceptional Dispatch for decremental energy issued prior to the RTM may have the effect of displacing decremental bids in the RTM and could thereby raise some real-time LMPs.

### **III. Comments of Constellation/NRG/Reliant**

#### ***Criteria for Applying Market Power Mitigation***

The joint comments of Constellation/NRG/Reliant include two key comments on the issue of market power mitigation:<sup>12</sup>

- The CAISO's proposal for exceptional dispatch goes far beyond the LMPM procedures under MRTU in which bids are mitigated only when they are used to resolve congestion on non-competitive constraints.
- If new mitigation measures are to be imposed at all for exceptional dispatch, the DMM should develop a set of clearly defined market power metrics to test the presence of market power necessitating market power mitigation in excess of that provided for in the LMPM measures – before categorically preventing an exceptionally dispatched generating unit from being able to secure a payment equal to its energy bid.

The same two points are included in the comments of WPTF.<sup>13</sup>

#### ***DMM Comments***

DMM agrees that, ideally, the proposed market power mitigation rule could be applied to Exceptional Dispatches only in cases when market power exists and is exercised. In fact, this is precisely what the automated Local Market Power Mitigation (LMPM) provisions incorporated in the MRTU tariff and software are designed to do. Moreover, to the extent that all reliability constraints and requirements are accurately incorporated in the

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<sup>11</sup> It should be noted that the CAISO would issue an ED only to resolve a reliability concern, rather than to prevent uneconomic adjustment in the market; however, a potential side effect of the ED could be to reduce the need for uneconomic adjustment.

<sup>12</sup> Constellation/NRG/Reliant , P. 2

<sup>13</sup> See *WPTF Comments on Mitigation for Exceptional Dispatch Calls*, second bullet on p. 1 and first paragraph on p. 2

MRTU software, the only mitigation that will be applied will be through the automated LMPM provisions, and the occurrence of Exceptional Dispatches and locational market power should be extremely limited.

In practice, however, this ideal may not be achieved, particularly during initial MRTU start-up, when reliance on Exceptional Dispatches may be needed to meet non-system level reliability requirements that may not be accurately incorporated into the MRTU model.

As noted by Constellation/NRG/Reliant and WPTF, the mitigation rule proposed by DMM would apply to units receiving manual Exceptional Dispatches for energy (above minimum operating level) for any *non-system level reliability requirements that cannot be addressed through the MRTU software*, rather than to “*resolve congestion on non-competitive constraints*”. This distinction was proposed by DMM based on a variety of considerations, which include:

- ***Classification of Exceptional Dispatches in Real Time by Grid Operators.*** In practice, DMM believes it may sometimes be difficult or even impossible for operators to identify a single, specific path for which an Exceptional Dispatch is being made. For example, even under automated LMPM procedures, the specific path for which a unit may be dispatched up is not identified. Instead, the dispatches made for local reliability are determined based on the difference in a unit’s schedules from two separate pre-market runs of the MRTU software: first, with only competitive transmission constraints enforced, and then with all transmission constraints enforced. In addition, as noted in the BPM for Market Operations, one of the primary reasons Exceptional Dispatches may be necessary is to address conditions that are not modeled in the MRTU software, rather than congestion on specific individual paths. However, operators issuing Exceptional Dispatches should be able to accurately differentiate dispatches made for system (or zonal) level reliability issues versus dispatches made for other overall system level energy requirements. Thus, DMM’s initial proposal was designed to reflect the degree to which Exceptional Dispatches may be accurately and consistently categorized based on real-time operations. However, DMM is continuing to discuss this issue with CAISO Grid Operations staff in order to further assess the implementation issues and feasibility associated with categorizing all Exceptional Dispatches as being made to meet reliability requirement associated with either *competitive* or *uncompetitive* transmission constraints, using the same designation of *competitive* and *uncompetitive* transmission constraints used in the automated LMPM provisions.
- ***Screening for Local Market Power.*** Given the difficulty of defining the specific reason for Exceptional Dispatches and the pool or effectiveness of resources that might be used to meet these reliability requirements *a priori*, DMM does not believe it would be feasible for grid operators to apply any specific market power metrics to test the presence of market power when issuing Exceptional Dispatches. In addition, development of automated screening tools that could be used by operators to assess market power in real time is also not feasible prior to MRTU. As the CAISO gains

more experience with Exceptional Dispatches, this approach may become more feasible for some reliability issues.

- ***Limited Ability to Optimize Exceptional Dispatches based on Reliability and Costs.*** In addition, since Exceptional Dispatches will be issued manually and may often be issued in or close to real-time, the selection of units and dispatch levels made by operators will not be optimized in the same manner as dispatches made under the CAISO's automated LMPM provisions. Exceptional Dispatches may be based primarily on reliability considerations, rather than the type of optimal cost minimizing principles used in automated LMPM provisions. Under such conditions, individual units that can most effectively meet any reliability requirements needing to be addressed through Exceptional Dispatches may have significant locational market power (i.e., the ability to demand extremely high bid prices for any energy required through an Exceptional Dispatch).
- ***Increased Market Power in Real Time for Units Being Dispatched to Minimum Dispatchable Levels.*** As noted in the DMM's November 30 whitepaper, one potential source of Exceptional Dispatches for energy (above minimum operating levels recorded in the CAISO Master File) is to dispatch units that are already committed and on-line up to their minimum dispatchable levels in real-time in order to ensure that sufficient 30-minute dispatchable capacity is online in areas such as SP26. Although the overall energy market within SP26 may be competitive under most conditions – particularly on a day-ahead basis in the IFM – the supply of capacity that is available in real-time to meet this type of reliability requirement may be much more limited. For example, the CAISO may have the option of committing a variety of units controlled by multiple suppliers to meet this type of reliability requirement on a day-ahead basis through an Exceptional Dispatch issued after the RUC process. Under this scenario, the CAISO would issue an Exceptional Dispatch after the RUC process for a unit to start up and operate at minimum the following day. However, if – prior to the RTM – CAISO needed a unit to ramp up to its minimum dispatchable level during some hours to meet this type of reliability requirement, this would require an Exceptional Dispatch for additional energy to be issued. Under this scenario, limited competition may exist and a unit could submit an extremely high bid price for this energy (e.g., \$500/MW), knowing that the unit was likely to receive an Exceptional Dispatch to operate to its minimum dispatchable level. Ideally, the 30-minute reliability requirements that may give rise to the need to issue Exceptional Dispatches for units to operate to minimum dispatchable levels in the Real Time Market would be explicitly incorporated in the MRTU software and market if these reliability requirements are not typically met as an indirect result of other constraints in the MRTU model. However, in the event this is not the case, DMM believes that any market power resulting from this limitation should still be effectively mitigated.

Given these considerations, DMM proposes that the mitigation rule apply to Exceptional Dispatches for any non-system level energy requirements that cannot be addressed through the MRTU software, rather than to “resolve congestion on non-competitive



constraints”. However, further refinement of the specific criteria used to apply the mitigation rule may be developed based on further discussions within the CAISO and with stakeholders.

#### **IV. Other Comments of WPTF**

##### ***Reliance on Market Mechanism***

WPTF indicates that “[t]he CAISO is proposing to limit compensation to generators who perform under the extraordinary condition that the CAISO’s market mechanisms prove inadequate.”<sup>14</sup>

##### ***DMM Comments***

The MRTU market and software are designed to rely, as much as possible, on market mechanisms to meet all system reliability and energy needs. To the extent that all physical reliability constraints are effectively and accurately incorporated in the MRTU software, market mechanisms should be sufficient to meet all system reliability and energy needs. However, in the event that some reliability constraints may not be effectively or accurately incorporated in the MRTU software/model, these market mechanisms cannot be utilized to meet system reliability needs. The proposed mitigation rule is designed to limit market power in the event that Exceptional Dispatches are needed for non-system reliability needs due to any limitations in the MRTU software which prevent the CAISO from relying on market mechanisms to meet all reliability needs.

As previously noted, the MRTU tariff requires that the CAISO utilize bids into the market to the extent possible prior to issuing Exceptional Dispatches for resources without bids submitted in the market. Thus, it appears most likely that any Exceptional Dispatches that are issued will be to units that are under RA/RMR or ICPM contracts and/or have bids submitted into the CAISO market.

Finally, it should be noted that since the proposed mitigation would not apply to Exceptional Dispatches issued due to system-level shortages of energy, the proposal does not limit compensation to generators who perform under the extraordinary condition that the CAISO’s market mechanisms prove inadequate to meet system level energy needs.<sup>15</sup>

##### ***Information on Exceptional Dispatches***

WPTF recommends that all market participants should be notified of the details of all Exceptional Dispatches “at least within the hour,” and that “each event of an Exceptional Dispatch should be reviewed in a stakeholder process to examine ways that Exceptional

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<sup>14</sup> WPTF, p. 1

<sup>15</sup> This response clarifies, as requested by SWP, that the proposed market power mitigation rule for Exceptional Dispatches would not be applied to or address Exceptional Dispatches for energy needed for general system reliability.

Dispatches can be avoided in the future, through either changes in infrastructure, procurement or operations.”<sup>16</sup>

### ***DMM Comments***

DMM agrees with WPTF that a key goal should be to seek to make Exceptional Dispatches very infrequent, and that achieving this goal will require close tracking and prompt review of the cause of Exceptional Dispatches so that modifications may be made to reduce reliance on Exceptional Dispatches. To this end, draft Operating Procedures for Exceptional Dispatches require that operators log the reason for all Exceptional Dispatches, and explicitly state that the CAISO’s policy will be that “[t]he CAISO will make every effort to avoid the use of Exceptional Dispatches.”<sup>17</sup>

Furthermore, in response to similar concerns previously expressed by WPTF, FERC’s September 21, 2006 Order stated that:

[we] direct the CAISO, for transparency reasons, to publish all instances of Exceptional Dispatches on its OASIS website beginning with the effective date of MRTU Release 1. The OASIS website report should include, at a minimum, total hourly volumes and hourly weighted average prices, by transmission operators service territory. We will monitor the occurrence of and method by which CAISO employs Exceptional Dispatch and if necessary will direct changes.<sup>18</sup>

The specific granularity and time lag for publishing data on Exceptional Dispatches pursuant to this requirement is currently being assessed by CAISO Grid and Market Operations.

While periodic review and discussion of Exceptional Dispatch data with stakeholders may be appropriate, DMM believes that this may be impractical for each Exceptional Dispatch. For example, DMM believes it may be more appropriate to periodically report and review the volume and costs of Exceptional dispatches in terms of overall trends, rather than reporting each individual Exceptional Dispatch.<sup>19</sup> In addition, DMM believes that in many cases Exceptional Dispatches may be more quickly and effectively reduced by an internal CAISO review process, rather than through a stakeholder process to review each individual Exceptional Dispatch, as recommended by WPTF.

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<sup>16</sup> WPTF, p. 2

<sup>17</sup> M-405 *Exceptional Dispatch - DRAFT Version 1.0*, <http://www.aiso.com/1c3a/1c3a92e028f80.doc>.

<sup>18</sup> September 21, 2007 Order on MRTU at 267.

<sup>19</sup> In addition, confidentiality issues may prevent publishing of Exceptional Dispatches for individual units, as suggested by WPTF.

### ***Other Mechanisms for Mitigating Market Power***

WPTF contends that “the CAISO already has a number of tools to avoid the exercise of market power, most notably, an effective program for system-wide and local RA that should procure an offer obligation from sufficient resources to meet the CAISO’s reliability requirements in a forward time frame.”<sup>20</sup>

#### ***DMM Comments***

While RA requirements are designed to ensure that sufficient capacity is available and subject to a must-offer obligation to meet system and local reliability needs, the RA program does not include any market power mitigation provisions for any energy that must be dispatched from RA units to meet reliability needs. As noted above, while the MRTU software and automated LMPM provisions are designed to mitigate potential market power stemming from non-system level reliability constraints, Exceptional Dispatches may be necessary in the event that some reliability constraints may not be effectively or accurately incorporated in the MRTU software. Similarly, ICPM or other backstop capacity mechanisms under consideration do not include any special provisions for mitigating potential market power in the event that Exceptional Dispatches for energy (above a unit’s minimum operating level) are needed to meet reliability requirements not captured in the MRTU software.

### ***Potential Impact on Underlying Causes for Exceptional Dispatch***

WPTF is concerned that the proposed mitigation rule may diminish the incentive for the CAISO to properly model the network or fix the underlying problems that may cause its use, and may mask the need for modifications in the grid as was intended through LMP signals.<sup>21</sup>

#### ***DMM Comments***

Under the MRTU tariff, the CAISO will be required to post the cost and cause of all Exceptional Dispatches. DMM believes that this will ensure that the use of Exceptional Dispatches will be highly transparent and subject to a high level of scrutiny – by the CAISO as well as stakeholders and regulatory entities. In addition, draft MRTU Operating Procedures for Exceptional Dispatches indicate that the CAISO’s policy will be that “[t]he CAISO will make every effort to avoid the use of Exceptional Dispatches.”<sup>22</sup>

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<sup>20</sup> WPTF, p. 1.

<sup>21</sup> WPTF, p. 2.

<sup>22</sup> M-405 *Exceptional Dispatch - DRAFT Version 1.0*, <http://www.caiso.com/1c3a/1c3a92e028f80.doc>, p.10

### ***Potential Impact on Resource Adequacy***

WPTF is also concerned that the proposed mitigation rule may diminish the incentive for the CAISO to adequately define local area requirements and for LSEs to procure those requirements in forward markets.<sup>23</sup>

### ***DMM Comments***

As discussed in response to other comments, RA designation simply requires that a unit offer its capacity in the CAISO markets, and in no way affects the degree to which a unit may be required to operate through an Exceptional Dispatch or the compensation paid for Exceptional Dispatches. Thus, DMM does not believe that rules for mitigation of Exceptional Dispatches of energy needed for non-system reliability needs should affect the incentive for the CAISO to adequately define local area requirements or for LSEs to procure those requirements in forward markets. Moreover, DMM believes the process and methodology used by the CAISO for defining RA requirements has become very well defined over the last few years, so that RA requirements developed by CAISO planning staff would not be affected by any Exceptional Dispatch mitigation rules that may be in effect.

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<sup>23</sup> WPTF, p. 2.