

## Stakeholder Comments Template

### Exceptional Dispatch Review and Assessment White Paper June 10, 2010

Submitted by	Company	Date Submitted
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This template has been created to help stakeholders submit written comments on topics related to the June 10, 2010 “Exceptional Dispatch Review and Assessment White Paper” and topics discussed during the stakeholder meeting on June 17, 2010. **Please submit your comments in Microsoft Word to [wmccartney@caiso.com](mailto:wmccartney@caiso.com) no later than the close of business on July 1, 2010.** Information on this Exceptional Dispatch initiative can be found at: <http://www.caiso.com/1c89/1c89d76950e00.html>.

Please add your comments below.

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

Calpine agrees that Exceptional Dispatch has been reduced significantly, in part due to the CAISO's diligent efforts to train operations personnel and to incorporate additional constraints into its market software.

However, the apparent reduction of Exceptional Dispatch, alone, has not resolved Calpine's concerns with the proper functioning of the CAISO markets in particular, and compensation levels generally. Locational price differences are uncommon, investment signals are entirely absent and compensation levels are inadequate to support even modest investment in existing facilities.

Indeed, minimizing ExD does not address these more fundamental issues. Calpine has supported the shift of certain uneconomic commitments from ExD to minimum on-line capacity constraints in the market software. However, without additional changes to market design, the CAISO's actions reduce market transparency and may reduce compensation for infra-marginal generators.

For example, if incorporating additional capacity constraints into the market software leads to *additional* uneconomic units being forced on and uplifted to loads (actions that are entirely non-transparent), marginal prices will fall further, locational price dispersion will decrease and total compensation for the resources that are not "forced on" will drop.

Adequate compensation through CAISO markets may be achieved through the continued minimization of ExD in combination with other market design elements potentially including appropriate scarcity pricing, new capacity products, less stringent market power mitigation, and new approaches to setting LMPs in order to reduce uplift costs, such as the convex hull approach that has been considered by MISO.<sup>1</sup>

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

Yes. Exceptional Dispatch tends to reduce marginal prices and as long as CAISO operators must make operational decisions outside market software, Calpine will be concerned. Such action reduces the very price dispersion that was the foundational premise of moving to a locational marginal pricing model.

Moreover, the significance of a "monthly average of 0.25 percent of load" is potentially misleading. First, loads are at their lowest point of the year during the period in question. Second, since most ExDs appear to be in real-time, the percentage of real-time load represented by ExDs could be substantially higher. Finally, as indicated above, most of the ExD volumes have not been eliminated, but rather, repackaged into minimum on-line commitments.

Calpine remains concerned that the energy and capacity markets in California, as a whole, are not compensatory. As demonstrated in multiple years of the market monitor's annual reports, the CAISO markets yield energy and AS gross margins that in combination with modest resource adequacy payments through the bilateral markets administered by the CPUC yield gross margins that are not

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<sup>1</sup> For example, see [http://www.hks.harvard.edu/fs/whogan/Gribik\\_Hogan\\_Pope\\_Price\\_Uplift\\_123107.pdf](http://www.hks.harvard.edu/fs/whogan/Gribik_Hogan_Pope_Price_Uplift_123107.pdf).

sufficient to cover the capital and other fixed costs of a typical gas-fired combined-cycle power plant and may not cover the going-forward fixed costs of or modest upgrades to existing plants.

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

As discussed above, Calpine believes that the CAISO markets in combination with the CPUC RA market should be fully compensatory. New market products may not be needed to address the remaining instances of ExD but they may be required to provide appropriate compensation and ensure that adequate resources with the right operating characteristics are made available to the CAISO.

In the longer term, it is clear that the CAISO needs incremental generation investment and a willingness to invest in existing generation to meet new operational requirements, such as those associated with renewables integration. Calpine eagerly awaits the results of the CAISO's 33 percent renewables integration study and looks forward to subsequent discussions of the need for new products to support renewables integration.

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

Calpine continues to believe that transparency is critical to a well-functioning market. We understand that Table 1 and Table 2 are differentiated only because of data availability. If the reports can be consolidated and still submitted on the Table 1 schedule, Calpine would support the combination.

In terms of data availability, Calpine seeks information on the causes, quantities, frequency and impacts of minimum on-line commitments. The data should be presented in a manner similar to Tables 1 and 2. In addition, as requested in the June 17<sup>th</sup> stakeholder meeting, Calpine seeks to understand the frequency and quantity of dispatches of energy above Pmin for those units forced on through capacity-based minimum on-line commitments.

4. Other Comments?