

**CDWR-SWP Comments to CAISO on  
Exceptional Dispatch Market Power Mitigation**

June 13, 2008

California Department of Water Resources-State Water Project (CDWR-SWP) appreciates the opportunity to comment on the CAISO's proposed tariff amendment to address compensation to resources for Exceptional Dispatch. SWP generally supports many of the points raised in the California Public Utility Commission's April 24, 2008 comments expressing concern that the proposal for compensating Exceptional Dispatch should not create perverse incentives or permit exercise of market power.

**CDWR-SWP recommends that the mitigation safeguards be conterminous with Exceptional Dispatch settlement, which extends to 2010.**

The draft tariff language clearly states that the payment mechanism in proposed new § 11.5.6.7 will terminate at the end of 2010—yet the mitigation program in § 39.10.3 will last only for 4 months. The CAISO's May 13, 2008 Final Proposal concerning this matter states that a "two-month 'grace period' will serve as a safeguard against extraordinary costs in the event of frequent Exceptional Dispatches during the initial two months of operations" under MRTU. This leaves the very real questions of what safeguards will be available after the mitigation is ended, and why safeguards are necessary on one day, but not the next.

The CAISO's Final Proposal identified concerns about "the local or temporal market power that could be exerted by resources subject to Exceptional Dispatch," which "instigated a mitigation proposal by the CAISO Department of Market Monitoring (DMM). The Final Proposal did not explain why such concerns would automatically terminate within 2, or 4, or any number of months.

For these reasons, CDWR-SWP supports continuing the initial mitigation program. If the CAISO develops evidence, based on experience with MRTU, that a relaxed mitigation mechanism has become appropriate, a further tariff amendment could be made to institute the relaxed mitigation approach.

**To avoid issues of undue discrimination against Frequently Mitigated Units (FMU), Exceptional Dispatch units should meet the criteria applied to FMU generators in order to receive the \$24 bid adder.**

The CAISO's initial MRTU filing made clear the requirements for Frequently Mitigated Units. In that filing, the CAISO explained that to receive a bid adder, a generating unit must:

- (i) have a mitigation frequency that is greater than 80% in the previous 12 months;
- (ii) have run for more than 200 hours in the previous 12 months; and
- (iii) have some capacity not under an RA contract and not subject to any CAISO capacity tariff.

See MRTU Tariff, Section 39.8.1.

Proposed Section 39.10.3.1, however, would apply the \$24 default bid adder intended for Frequently Mitigated Units to any generators under Exceptional Dispatch. The CAISO's Final Proposal referenced the \$24 default bid adder applicable to FMU, but did not explain why this bid adder would be granted to Exceptional Dispatch generators that do not meet the carefully established criteria for FMU.

As CDWR-SWP understands it, generating units that are not properly modeled in MRTU systems may be particularly susceptible to Exceptional Dispatch. This lack of data or software accuracy alone should not become a revenue source for certain generators—particularly if such generators do not meet the criteria for Frequently Mitigated Units.

Because imposing criteria on one set of generators—but not others—raises concerns of undue discrimination, SWP recommends that all generators should be required to meet the same tariff criteria established for FMU bid adders, as established in Section 39.8 of the MRTU tariff in order to qualify for the bid adder.