

WPTF Comments on Mitigation for Exceptional Dispatch Calls

WPTF has significant concerns about the CAISO's recent proposal to mitigate payments to units that operate to resolve CAISO issues through the Exceptional Dispatch (ED) process. Several aspects of the Exceptional Dispatch process and the CAISO's proposed mitigation should be noted:

- The CAISO is proposing to limit compensation to generators who perform under the extraordinary condition that the CAISO's market mechanisms prove inadequate.
- The CAISO is also proposing to limit compensation *without demonstrating any potential on the part of suppliers to exercise market power*.
- Exceptional Dispatch is not a service SCs can provide at their discretion; it is mandated under the MRTU tariff and a Scheduling Coordinator cannot avoid being Exceptionally Dispatched. In that sense it is a must-offer requirement.
- The must offer requirements of the Exceptional Dispatch are not unlike the previous must-offer requirements. In fact, because an Exceptionally Dispatched unit must both specify a cost-based bid level and may not set an LMP, the requirements and limitations of Exceptional Dispatch are more onerous than the current must-offer requirements. "The CAISO has unusually broad discretion to use Exceptional Dispatch and the set of conditions under which the CAISO can exercise its Exceptional Dispatch authority seem to be expanding over time as we get closer to the start of MRTU."¹

The CAISO 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. It also has ICPM (or other backstop capacity mechanisms).

The CAISO's proposal suggests that it will be mirroring the automated LMPM procedures to mitigate all Exceptional Dispatches that are not for system-level reliability requirements. However, this is not the

¹ Most recently, for example, the CAISO has suggested that it could use Exceptional Dispatch to meet local capacity needs rather than procuring such service through ICPM or other backstop mechanisms. See MMU Whitepaper, "Discussion Paper: Exceptional Dispatch and Proposed Interim Capacity Procurement Mechanism" (<http://www.caiso.com/1c7f/1c7fe9985c80.pdf>) and CAISO Staff ICPM Final Whitepaper, pages 9 and 18.

same as the current LMPM procedures under MRTU in which bids are mitigated only when they are used to resolve congestion on non-competitive constraints. While the CAISO's paper states that Exceptional Dispatch may be needed for local reliability issues, the use of the term "non-system level reliability requirements" would also apply to any Exceptional Dispatch related to the transmission paths deemed to be competitive. While WPTF hopes that Exceptional Dispatch is used infrequently, or better yet, not at all, the CAISO should not extend mitigation to Exceptional Dispatch situations where mitigation is NOT otherwise applied in the market. While there may be times when mitigating Exceptionally dispatched units' bids is consistent with normal dispatch, the current proposal would always mitigate.

The presumption that all Exceptional Dispatch should be mitigated diminishes incentives for the CAISO and LSEs to properly model the network and to adequately define local area requirements and procure those requirements in forward markets or have them set in RA procurement requirements. It also creates an incentive to become dependent on exceptional dispatch instead of fixing the underlying problems that require its use. This will, in turn, undermine 1) a fundamental purpose of MRTU – to dispatch units needed for reliability through, not outside of, the CAISO's markets; 2) the goal of the CPUC RA's program, which is to ensure that capacity needed for reliability is procured forward, and 3) incentives to invest in the infrastructure needed to meet reliability requirements.

The CAISO has many market based mechanisms to manage grid reliability, and installing a parallel, out-of-market mechanism by allowing Exceptional Dispatch creates an inherent conflict for the CAISO. Events of Exceptional Dispatch should be rare, and actions taken and units affected after each event should be immediately notified to all market participants, at least within the hour. Further each event of an Exceptional Dispatch should be reviewed in a stakeholder process to examine ways that Exceptional Dispatches can be avoided in the future, through either changes in infrastructure, procurement or operations. Exceptional Dispatch further masks the need for modifications to the grid, as was intended through LMP signals. However, due to the rules prohibiting Exceptional Dispatch from setting LMPs, a stakeholder review process is necessary and critical for the future efficient use of the grid.

Further, Exceptional Dispatch provisions will mask scarcity pricing signals. Thus, a heavily mitigated or variable cost-based proxy payment to a unit subjected to Exceptional Dispatch is inappropriate.

WTPF requests that the CAISO continue dialog on this issue to determine the extent to which units that will be Exceptionally Dispatch have the potential to exercise market power, especially in light of the fact that they have no control over being Exceptionally Dispatched. To the extent the CAISO demonstrates potential, the CAISO should find mechanisms to further limit any mitigation so that bids are not mitigated for reasons other than those that would apply under the automated LMPM. To mitigate in any instance other than being Exceptionally Dispatched for local area requirements extends mitigation into areas for which it is not already approved for the market.