



Exceptional Dispatch: Compensation for Non-Resource Adequacy Resources

Udi Helman, Ph.D.
Principal Market Economist
Market and Infrastructure Development

FERC Technical Conference on Exceptional Dispatch
Nov. 6-7, 2008

Outline of CAISO comments on compensation for non-RA resources

- Comparison of Exceptional Dispatch compensation with different backstop mechanisms (RCST, TCPM, ICPM)
- Key questions/clarifications with FERC pricing proposal
- Double-payment issue
- Compensation for Exceptional Dispatch of self-scheduled resources
- Market power mitigation

Comparison of Compensation for Non-RA Resources

	<i>Commitment Instruction (to Pmin)</i>	<i>Dispatch Instruction (above Pmin)</i>	<i>Monthly Capacity Designation</i>
<i>RCST</i>	1/17 * monthly RCST payment (full unit)	-RCST/TCPM resource above Pmin covered by capacity payment	Monthly capacity payment (full unit)
<i>TCPM</i>	Monthly TCPM payment (full unit)	-Non-RA unit self-scheduled/market scheduled, OOS does not get RCST/TCPM designation	Monthly capacity payment (full unit)
<i>ICPM</i>			Monthly capacity payment (partial or full unit)
<i>Exceptional Dispatch (CAISO proposal)</i>	Start-up and min-load payment	Higher of Bid or LMP up to supplemental revenue cap (based on ICPM payment) – all non-RA Exc. Dispatch	
<i>Exceptional Dispatch (FERC alternative)</i>	Monthly ICPM payment (full or partial unit?)	Rules for ICPM designation? Committed by market or Exc. Dispatch?	

Criteria for Evaluating Alternative Compensation Mechanisms

- Provide non-RA resource an appropriate contribution to fixed costs
- Provide non-RA resource incentive to offer resources into MRTU markets (i.e., prevent withholding to get the payment)
- Provide non-RA resource incentive to accept ICPM designation or RA contract
- Mitigate local or temporal market power through Bid or revenue caps
- Minimize administrative costs and implementation issues

CAISO Views on FERC mechanism: Five key issues that need to be addressed

- Clarify rules for resources that reject ICPM designation
- Distinguish between types of Exceptional Dispatch eligible for ICPM designation
- Clarify whether full or partial unit ICPM designation
- Address behavioral incentives in MRTU markets and in capacity contracting or designation (ICPM/Resource Adequacy)
- Clarify rules for voluntary acceptance of ICPM designation simultaneous with Exceptional Dispatch

CAISO Views on FERC mechanism: Issue 1 – Clarification of Pricing Rules for Resources that Reject ICPM Designation

- The FERC mechanism does not clearly explain compensation rules if ICPM designation is rejected
 - Appears to contemplate allowing choice between ICPM designation or CAISO supplemental revenues (P 107)
- Issues for FERC consideration
 - CAISO prefers one compensation method
 - Option between ICPM designation or supplemental revenue potentially creates incentive issues and would need additional rules (e.g., double payment, as discussed below)

CAISO Views on FERC mechanism: Issue 2 – Distinguishing between Types of Exceptional Dispatch

- The FERC mechanism doesn't distinguish between types of Exceptional Dispatch
 - E.g., (a) Exceptional Dispatch commitment and dispatch for reliability support versus (b) Exceptional Dispatch of a self-committed or market-committed resource
- In its proposal, CAISO sought to avoid categorizing Exceptional Dispatches by making supplemental revenues based on Bids
- Options for FERC consideration
 - Introduce specific triggers for ICPM designations, e.g.
 - Commitment through Exc. Dispatch and any subsequent incremental energy dispatch under Exc. Dispatch eligible for ICPM designation
 - Incremental Exc. Dispatch of self-scheduled or market committed non-RA resources have different rule, or perhaps not eligible for ICPM designation
 - Also, decremental Exceptional Dispatch should not receive ICPM designation (generally agreed by participants)

CAISO Views on FERC mechanism: Issue 3 – Considering Partial versus Full Unit Capacity Payments

- The FERC mechanism doesn't explain whether full or partial unit ICPM designation
 - Partial designation is needed to make designation consistent with ICPM and Resource Adequacy market rules
 - Full designation may lead to overpayment
- In its proposal, CAISO sought to avoid measurement issues associated with partial designations by making supplemental revenues based on Bids
- Options for FERC consideration
 - Explicitly allow for partial unit ICPM designation
 - Introduce simple rule for determination of partial unit designation

CAISO Views on FERC mechanism: Issue 4 – Market Incentives

- The FERC mechanism doesn't explicitly address incentives of resources (1) to participate in MRTU markets or (2) when negotiating RA contracts or accepting ICPM offers (full versus partial issue)
- In its proposal, CAISO sought to ensure that Non-RA resources (that otherwise would be market dispatched) do not physically withhold to force Exceptional Dispatch
 - Introduced requirement that resource must have Bid in the CAISO markets to obtain supplemental revenues; otherwise get paid higher of LMP or DEB until Bid is submitted (consistent with MRTU Tariff)
- Options for FERC consideration
 - Could adopt requirement to submit Bid to be eligible for ICPM designation
 - Provisions for partial unit designation could reduce incentive issues in RA/ICPM

CAISO Views on FERC mechanism: Issue 5 – Clarification of Exceptional Dispatch and Voluntary ICPM Designation

- The FERC mechanism appears to assume that CAISO Exceptional Dispatch instructions can be bundled with offer of ICPM designation
 - ICPM has time for voluntary decision by generator (hours, perhaps days); Exceptional Dispatch typically does not (hours, minutes)
- CAISO proposal avoids this issue by making “supplemental revenues” based on Bids; no ICPM designation needed, but monthly ICPM revenues used as “supplemental revenue” cap to trigger mitigation
- Options for FERC consideration
 - *Ex ante* acceptance: Require resources to indicate willingness to accept ICPM designation offer, e.g., at beginning of month
 - *Ex post* acceptance: Require all eligible resources to indicate acceptance within some time period after Exc. Dispatch

Other Compensation Questions

- Double Payment. CAISO agrees that FERC proposal in principle eliminates possibility of “double payment” inherent in CAISO proposal
 - But subject to clarifications discussed above, particularly whether resources have choice of ICPM designation or supp. revenues
- Treatment of Partial RA Resources. The general rule is that only non-RA portion is eligible for supp. revenues or ICPM designation
 - CAISO proposal allows partial RA resources to collect supp. revenues for non-RA/non-ICPM capacity
 - Under FERC proposal, presumably ICPM designation would be for partial or full non-RA capacity; a decision rule is required

Other Compensation Questions (cont.)

- Payments to Self-Scheduled Resources. Since such resources would not have Bids in the Markets CAISO proposed to pay
 - higher of LMP or DEB for Incremental Exceptional Dispatch until Bid is submitted to calculate supp. revenues
- Options for FERC consideration
 - Rules for partial ICPM designation, as discussed above

Market Power Mitigation of Resources without Capacity Contracts

- CAISO believes that under specified conditions proposed in Tariff Sec. 39.10, market power mitigation under Exceptional Dispatch should be applied to all resources
 - CAISO proposed supp. revenue rules for Non-RA resources
- If Commission adopts an alternative mechanism, resources with ICPM designations under Exceptional Dispatch should be subject to the same mitigation rules as RA and other ICPM resources