Comments of Pacific Gas and Electric Company
On the 'Competitive Path Assessment for MRTU Preliminary Results'

PG&E provides these comments in response to an October 2, 2007 request by the CAISO Department of Market Monitoring (DMM) for market participant input on the DMM's 'Competitive Path Assessment for MRTU Preliminary Results – Release 2' (Preliminary Results) dated September 28, 2007 and as discussed during a stakeholder conference call October 24, 2007.

The design and application process outlined by the CAISO for local market power mitigation using the Competitive Path Assessment (CPA) and the three pivotal supplier tests has been accepted by FERC in their September 21, 2007 Order approving MRTU. Issues that remain open are associated with the detailed study assumptions and parameters established by the DMM that are necessary in order to conduct the CPA analysis. PG&E comments below focus these important implementation details.

As background, CPA is unique and critical in the process that enables the CAISO to implement local market power mitigation under MRTU. Supplier bids behind 'competitive' paths, as determined by the CPA process, will not be subject to any market power mitigation provisions other than the prevailing bid caps. Considering the complexity of MRTU, PG&E would urge the CAISO to proceed in a cautious and conservative manner, particularly during the start-up and early stages of MRTU including the designation of paths as 'competitive' or 'non-competitive'. The market consequences of designating a competitive path as 'non-competitive' would be small or non-existent, while inappropriately designating a non-competitive path as 'competitive' could significant.

The DMM study methodology as outlined in the 'Preliminary Results' is generally sound and supportable, but contains a number on possibly non-conservative assumptions and parameters.

One key issue is associated with local (zonal) infeasibilities associated with aggregate supply shortages. In the May 10, 2007 CPA assessment, a number of paths failed as a result of the DMM setting all zonal paths to negative FI values under modeling conditions in which supply cannot meet load in a given hour[1]. It is PG&E's opinion that this approach is consistent with the fundamental purpose of the CPA – to enable the CAISO to successfully address and mitigate local[2] market power within MRTU. Under conditions where the only alternative is load curtailment, the modeling *should* recognize that there are no 'competitive paths' that could resolve such an insufficiency, and as such, that every supplier would be pivotal and should be subject to possible bid mitigation. PG&E continues to support this approach.

[1] Any path with a negative FI result is deemed 'non-competitive'.
[2] Local designation may properly include consideration of extended local regions or zones.

However, the DMM has removed this provision in the latest CPA assessment, and as a result, there are significantly different conclusions with respect to competitive path designations from the preliminary May 10, 2007 CPR assessment and the most recent report[3]; specifically, more paths are now deemed 'competitive'. As indicated by the DMM during the October 24, 2007 stakeholder call, the primary reason driving the differences between these two reports is caused by this new FI treatment used during zonal supply shortages. PG&E urges the DMM to reconsider this approach in favor of the more conservative prior methodology.

In addition, there are number of other issues that PG&E would recommend for further consideration. The exclusion of contingencies in the CPA may not capture the necessary market stress conditions that, in particular, would benefit from the ability of the CAISO to implement market power mitigation measures. Also, the DMM has not fully considered the more granular procurement of ancillary services that is provided under MRTU tariffs; it is possible that more suppliers would be pivotal under these circumstances. Additionally, it appears that imports and exports have been modeled based on their bids, however a more conservative and appropriate approach would include the consideration that a significant number of import/export bids are in fact declined, possibly increasing the pivotal nature of in-area suppliers.

In the future, the CAISO has indicated that it revise the CPA process to reflect contractual control of resources to improve the results of the three pivotal supplier tests. As the CAISO staff seeks to gather and account for ownership/control of facilities, PG&E recommends that all types of arrangements must be accounted for properly and transparently. Simple 7x24 tolling agreements can be easily accounted for but many (partial) arrangements are far more complex.

Many of these study parameters reflect difficult trade-offs, a key concern of PG&E's is that the CAISO staff under no circumstances inappropriately designates a path as 'competitive' such that a situation is created in MRTU that enables the exercise of local market power.

Conclusion

PG&E urges the CAISO to undertake a conservative and cautious approach in designation of 'competitive' paths for MRTU. PG&E looks forward to working with the CAISO and other stakeholders in the finalization of the CPA process to be used in the initial phases of MRTU. For follow-up or questions, please contact Brian Hitson (415-973-7720) or Glenn Goldbeck (415-973-3235).

[3] For example, CPA failure rate for Summer was 100% in the May report, 58% in the September results. Similarly for the Spring season, the results changed from 83% to 54% failure rate.