Comments of Pacific Gas and Electric Company

On the ‘Competitive Path Assessment for MRTU Preliminary Results’

PG&E provides these initial comments in response to a request by the CAISO for market participant input and direction on the CAISO’s ‘Competitive Path Assessment for MRTU Preliminary Results’ (“Preliminary Results”) issued May 10, 2007, as presented to stakeholders on June 8, 2007.

In compliance with approved MRTU tariffs, the CAISO has appropriately initiated a process to review transmission paths for designation as ‘competitive’ or ‘non-competitive’ for the implementation of local market power mitigation procedures in the CAISO energy markets. To a significant extent, the design and process outlined by the CAISO for local market power mitigation has already been presented and approved by FERC. It appears that the CAISO staff has contentiously and appropriately implemented the Competitive Path Assessment (CPA) methodology as directed by these approved tariffs. PG&E’s comments focus on the limited set of remaining open implementation issues. As the Preliminary Results are refined with updated network modeling, new software functions and with simulations covering more load and hydro scenarios, PG&E will provide additional comments and recommendations to the CAISO staff.

The CPA is the lynch-pin of 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 absolute energy bid caps. Because of this, the CAISO staff must proceed in a considered, objective and cautious manner in the designation of paths as ‘competitive.’ PG&E would expect the CAISO will proceed in such a cautious manner particularly during the start-up and early stages of MRTU given the complexity of market changes, the newness of LMPs, increasing bid caps and given that there will be a complete revision to system and local market power mitigation provisions with MRTU. Unexpected and damaging market results have occurred in California with past market changes, and the CAISO and market participants should be vigilant to assure a successful move forward with MRTU. In summary, PG&E’s key concern 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.

Additional Issues:

The general CPA approach and preliminary results that the CAISO has provided appear sound and appropriate. Under the various test scenarios and pivotal supplier assessments, the CAISO election to designate all regional paths as ‘non-competitive’ under the circumstances of firm load curtailment is appropriate. The CAISO explained at the June 8, 2007 stakeholder meeting that under these
conditions, market power can be exerted by any/all suppliers behind any/all regional paths and that the opportunity for CAISO mitigation is clearly appropriate. This approach is reasonable given the circumstances, and suggestions otherwise should be met with a cautious dose of suspicion by the CAISO.

As the CPA is further developed and refined, the CAISO may want to consider ‘low hydro’ scenarios using some test year other than 2004. Generally stated, precipitation in many recent years has been less and at times significantly less than 2004 (more than 20 of the past 50 years have been less, including 2007). The use of ‘low hydro’ scenarios that better reflect less available precipitation/generation would more accurately identify pivotal suppliers and in turn, truly ‘competitive’ paths.

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.

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 following three months in the finalization of the CPA process. For follow-up or questions, please contact Brian Hitson (415-973-7720) or Glenn Goldbeck (415-973-3235).