



Comments of Pacific Gas and Electric Company on CAISO Whitepaper on Ranking Criteria For Proposed Market Design Changes

These comments are in response to the CAISO's request for input concerning the whitepaper titled "Ranking Criteria For Proposed Market Design Changes," dated July 12, 2006.

General

PG&E appreciates the opportunity to comment on the CAISO's whitepaper. The time and effort spent by the CAISO and stakeholders to prioritize how future market design changes are to be addressed is an important and worthwhile investment. The effort will help ensure that the CAISO, market participants and energy consumers receive maximum benefit from the contemplated market design changes.

Ranking Criteria

Subject to the following comments and questions, PG&E agrees that the proposed criteria provide a reasonable initial basis for prioritization of post-Release One market initiatives.

That said, it is not clear to us why "Process Improvement" and "Addresses Corporate Risk Inventory" are appropriate criteria for prioritization of CAISO post-Release One market initiatives. Although the CAISO may have a general interest in prioritizing certain CAISO business activities, these criteria do not appear to have a strong link to meeting the CAISO's stakeholder needs, which are to assure reliable, efficient, and stable energy markets while minimizing administrative costs.

PG&E also suggests that the CAISO supplement the criteria to increase the priority of market initiatives when those initiatives are supported by a complete or nearly complete consensus among market participants.

Weighting

PG&E agrees that “Improving Market Efficiency” is an important criterion for assessing future market design changes. Since market efficiency has a direct impact on the cost to consumers of energy, congestion management and ancillary services, PG&E recommends that this criteria be assigned a higher weighting of 10 (the CAISO proposal would weight this criteria at 6).

PG&E questions whether the Infrastructure Development criterion should be assigned the maximum weighting level of 10. Although PG&E agrees that energy infrastructure development is an important objective for California, and that the CAISO should have a role in fostering infrastructure, this criterion should have a lower weighting relative to “Reliability” and “Market Efficiency.”

Although PG&E supports development of a stable and consistent set of market rules, PG&E suggests that the CAISO’s proposed “Reputation” criterion be assigned a lower weighting of 5 (CAISO proposal is 7).

Approach to Prioritization

PG&E appreciates the time and effort the CAISO has dedicated to developing the proposed ranking criteria, but is concerned that the combination of sixteen criteria, a ten point weighting system for criteria, and a four category impact scale for each may prove both overly complex and afford an unfounded sense of objective certainty. However, PG&E strongly supports the notion of assessing and considering the impact of proposed design changes as a means for ranking, as the resources of the CAISO and of market participants should be dedicated to issues that have the most important impact. The assessment of impact under the proposed approach, however, for many criteria, would be subjective and essentially under the control of the CAISO. Cost/benefit analyses should be used and justified to the maximum extent practicable.

Application of Criteria by CAISO

PG&E supports the CAISO’s proposal to initially apply the ranking criteria to the specific group of identified post Release One market design enhancements, and to provide the resulting analyses to market participants for comment and feedback.

Although it would be ideal to have direct stakeholder input in the process of applying criteria to proposed market change initiatives in the first instance, to do so through the stakeholder process would be impractical.

The CAISO should post the draft results of its application of the criteria and review those results with stakeholders allow for feedback on the results. The CAISO should also include a mechanism for updating the initial prioritization of post –Release One market design issues.