



Comments of Pacific Gas and Electric Company
Revised 2013 Stakeholder Initiatives Catalog

| Submitted by | Company | Date Submitted |
|--------------------------------|---------|-------------------|
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Pacific Gas and Electric Company (PG&E) offers the following comments in the stakeholder process for the California Independent System Operator’s (CAISO) 2013 Stakeholder Initiatives Catalog (“Catalog”).

Section I: PG&E opposes the deletion of the Marginal Loss Surplus Allocation Alternative Approaches initiative

Section II: PG&E recommends that the CAISO prioritize the follow five discretionary market design initiatives:

- 1) Review of Convergence Bidding Uplift Allocation
- 2) Storage Generation Plant Modeling
- 3) Marginal Loss Surplus Allocation Alternative Approaches
- 4) Standard Capacity Product Enhancements
- 5) DLAP Level Proxy Demand Response

The initiative scores are derived from CAISO’s priority matrix. The ranking of priorities also incorporates additional PG&E considerations.

Section III: PG&E recommends improvements to the following processes:

- 1) Stakeholder Initiatives Catalog
- 2) Notifying stakeholders of constraint enforcements/un-enforcements

Section IV: PG&E provides comments on the infrastructure and planning initiatives and proposes one new initiative - Phase 3 Competitive Transmission Process Efficiency Enhancements.

I. PG&E opposes the deletion of the Marginal Loss Surplus Allocation Alternative Approaches initiative.

The current Marginal Loss Surplus Allocation (MLSA) approach allocates Marginal Loss Surplus pro-rata based on system demand. This approach ignores the significant difference in transmission losses among regions within the CAISO Control Area, specifically the Northern and Southern regions separated by Path 26. Given this difference, an alternative, regional based MLSA approach is much more appropriate. This will improve market efficiency with little to no implementation impact. CAISO has already committed to studying marginal loss surplus alternatives and initiating a stakeholder process in 2014 and as such it would clearly be unreasonable to delete the initiative from the catalog.

II. Market Design Initiatives

PG&E recognizes that the CAISO will undertake several non-discretionary initiatives in 2014, which will require significant commitment of CAISO time and resources. As time and resources allow, PG&E prioritizes the following discretionary market design initiatives.

Initiative 1: Review of Convergence Bidding Uplift Allocation

A costly loophole exists in today's CAISO market. Virtual bidders can profit from differences between the Day Ahead (DA) and Real Time (RT) modeling of transmission constraints and drive up Real Time Imbalance Offset (RTIO) costs. In 2012 alone, the real time congestion offset (RTCO) piece cost California load over \$70 million. By assigning the RTCO costs solely to physical demand, the current cost allocation methodology provided a perverse incentive for virtual bidders to take advantage of these modeling issues. No evidence exists that this practice of arbitraging outages is improving reliability or market efficiency, and PG&E believes addressing the RTIO cost allocation is appropriate to shield load from the uplift costs associated with this bidding strategy. This issue is well documented in a Department of Market Monitoring (DMM) white paper¹, along with a proposed cost allocation fix for both Real Time Imbalance Energy Offset (RTIEO) and RTCO. The CAISO should close this cost allocation loophole to improve market efficiency and lower unreasonable market costs being assigned to load in the future.

Fortunately, a clear fix is ready and available. To remove the underlying loophole, the DMM recommends modifying the existing cost allocation methodology, and allocating a portion

¹Kurlinksi, R. (2013). Real-time Revenue Imbalance in CAISO Markets.
http://www.caiso.com/Documents/DiscussionPaper-Real-timeRevenueImbalance_CaliforniaISO_Markets.pdf

of RTIO costs incurred back to Convergence Bidders who received revenues funded in part by such uplifts. PG&E agrees with the DMM recommendation.

Closing this loophole for convergence bidders is a timely use of the CAISO’s resources given that:

- 1) The CAISO-PacifiCorp Energy Imbalance Market (EIM) will introduce structural differences between the DA and RT markets which could be exploited by convergence bidders, driving up RTCO and RTIEO costs.
- 2) Virtual bidding at interties will eventually be reintroduced as part of the FERC 764 market changes.
- 3) This market change will not involve major changes to the CAISO systems and processes. CAISO could implement this change quickly, and would not delay the other mandatory market changes already on its plate.

**Review of Convergence Bidding Uplift Allocation
High Level Prioritization Criteria Matrix**

| | Criteria | HIGH | MEDIUM | LOW | NONE | Your Score | |
|---|-------------|---|-------------------------------------|-------------------------------------|---|--------------------|----|
| | | 10 | 7 | 3 | 0 | Use 0, 3, 7, or 10 | |
| A | Benefit | Grid Reliability | Significant Improvement | Moderate Improvement | Minimal Improvement | No Improvement | 3 |
| B | | Improving Overall Market Efficiency | Significant improvement | Moderate improvement | Minimal improvement | No impact | 7 |
| C | | Desired by Stakeholders | Universally desired by stakeholders | Desired by majority of stakeholders | Desired by a small subset of stakeholders | No apparent desire | X |
| D | Feasibility | Market Participant Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 10 |
| E | | ISO Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 7 |
| | | | | | Total | 27 | |

Grid Reliability

Although this initiative will focus on the allocation of costs to market participants, it is important to recognize that virtual bidding affects unit selection/dispatch. Without proper cost allocation, improper incentives result that change commitment. As such, there is a reliability impact.

Improving Overall Market Efficiency

Proper cost allocation naturally improves market efficiency. Virtual bidders currently benefit from the congestion that results from their participation in the market. In 2012, \$70 million was paid to convergence bidders from RTCO uplift charges to demand. To the degree virtual bidders inefficiently alter commitment decision and day-ahead dispatch (because their bids do not reflect the other costs created) the markets will produce an inefficient outcome.

Market Participant Implementation Impact (\$ and resources)

PG&E expects the implementation impact on market participants to be very low, as the allocation will be done at the CAISO.

ISO Implementation Impact (\$ and resources)

The methodology to reallocate RTCO costs has already been developed, and the CAISO will apply this approach the EIM entities in 2014. Some incremental resources will be needed to expand this approach to the CAISO footprint as well.

Initiative 2: Storage Generation Plant Modeling

PG&E continues to support CAISO attention to the Storage Generation Plant Modeling initiative item that was included in the 2011 and 2012 CAISO Catalogs. The significance, penetration and sheer number of energy storage resources will increase significantly as a result of the recent CPUC Decision Adopting Energy Storage Procurement Framework and Design Program (D.13-10-040) that mandates the Investor-owned Utilities to procure over 1,300 MW of new storage PPA resources by 2020. Many of these resources are expected to participate in CAISO markets. However, the current CAISO modeling available for storage resources does not provide the flexibility needed for the CAISO and market participants to fully realize the full value of these new flexible resources.

An additional (integrated) storage model that optimizes Non-Generation Resource (NGR) bids across multiple intervals (managing the state-of-charge) represents an important enhancement to the CAISO markets. The Pump-Generation (PG), Non-Generation Resource (NGR Non-REM) and Non-Generator Resource-Regulation Energy Management (NGR-REM)

each have specific attributes and benefits; however each has limitations that will restrict many of the new resources from full market participation. For example, the NGR Non-REM does not manage the state-of-charge across a day and as such significantly limits the ability of market participants to offer to bids for storage resources (effectively requiring a high degree of self-scheduling). Additionally, the NGR-REM requires an award as a regulation resource (an award of which is uncertain and the regulation needs of the CAISO are finite) and further precludes any energy or spin/non-spin bidding.

An additional storage model should be developed that would co-optimize energy and ancillary services across the time horizon of the Integrated Forward Market (including multiple days as the IFM expands its optimization horizon, and within the shorter commitment/dispatch horizons in the Real-Time Markets), while managing/optimizing the charging and discharging of storage resources based on the energy and ancillary services bids (with specific start and end states of charge) provided by market participants. The CAISO and stakeholders would benefit from an initiative to determine the feasibility, abilities, limitations and costs associated with the development and implementation of such a storage model, particularly given the recent storage mandates.

PG&E anticipates that extensive stakeholder involvement and analytical support will significantly help the CAISO in the design of such a model, and PG&E pledges the necessary support.

Storage Generation Plant Modeling - High Level Prioritization Criteria Matrix

| | | Criteria | HIGH | MEDIUM | LOW | NONE | Your Score |
|---|-------------|---|-------------------------------------|-------------------------------------|---|--------------------|--------------------|
| | | | 10 | 7 | 3 | 0 | Use 0, 3, 7, or 10 |
| A | Benefit | Grid Reliability | Significant Improvement | Moderate Improvement | Minimal Improvement | No Improvement | 7 |
| B | | Improving Overall Market Efficiency | Significant improvement | Moderate improvement | Minimal improvement | No impact | 7 |
| C | | Desired by Stakeholders | Universally desired by stakeholders | Desired by majority of stakeholders | Desired by a small subset of stakeholders | No apparent desire | X |
| D | Feasibility | Market Participant Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 7 |
| E | | ISO Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 7 |
| | | | | | | Total | 28 |

Grid Reliability

Improved storage generation modeling will allow the CAISO to optimize ancillary service products from storage resources and the resource’s state of charge to coincide with real time grid conditions. Also, effectively using the flexible attributes of 1300 MW of storage could assist in CAISO’s efforts to assure grid reliability.

Improving Overall Market Efficiency

Storage resources, while not a major part of the market today, will play a larger role in the CAISO market in the future. Improved storage generation modeling will allow the CAISO to more efficiently dispatch storage resources (charging vs. discharging states) and make use of the ancillary services they can provide.

Market Participant Implementation Impact (\$ and resources)

PG&E expects the implementation impact on market participants to be low, as the model development will be done at the CAISO.

ISO Implementation Impact (\$ and resources)

The CAISO would likely incur costs to implement this initiative but these are unknown to PG&E at this time. The implementation impact should be significantly smaller compared to other modeling efforts such as EIM and FERC 764.

Initiative 3: Marginal Loss Surplus Allocation Alternative Approaches

The misallocation of marginal loss surplus allocation through the current allocation method is substantive and has been a long-term issue. The CAISO recognized this as an issue in its 2010 MLSA issue paper² and has committed to collect data, perform studies to assess different allocation methods and address the issue in a stakeholder process in 2011 which was then deferred 2013. Although the start of this initiative has been pushed back to accommodate work on other initiatives, PG&E's expectation is that the CAISO will follow through on its commitment to work on this issue in 2014.

² CAISO, (2010). Regional Marginal Losses Surplus Allocation Impact Study.

<http://www.caiso.com/Documents/RegionalMarginalLossesSurplusAllocationImpactStudy.pdf>

**Marginal Loss Surplus Allocation Alternative Approaches
High Level Prioritization Criteria Matrix**

| | Criteria | HIGH | MEDIUM | LOW | NONE | Your Score | |
|---|-------------|---|-------------------------------------|-------------------------------------|---|--------------------|----|
| | | 10 | 7 | 3 | 0 | Use 0, 3, 7, or 10 | |
| A | Benefit | Grid Reliability | Significant Improvement | Moderate Improvement | Minimal Improvement | No Improvement | 3 |
| B | | Improving Overall Market Efficiency | Significant improvement | Moderate improvement | Minimal improvement | No impact | 7 |
| C | | Desired by Stakeholders | Universally desired by stakeholders | Desired by majority of stakeholders | Desired by a small subset of stakeholders | No apparent desire | X |
| D | Feasibility | Market Participant Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 10 |
| E | | ISO Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 7 |
| | | | | | Total | 27 | |

Grid Reliability

By allocating marginal loss surplus based on regional transmission characteristics, a regional MLSA approach will remove a potentially important barrier as new regions consider joining the CAISO Control Area. This may lead to a more diverse and reliable CAISO controlled grid.

Improving Overall Market Efficiency

The current MLSA approach allocates Marginal Loss Surplus pro-rata based on system demand. This approach ignores the significant differences in the transmission grid under CAISO control in different regions and the resulting differences in transmission losses among regions within the CAISO Control Area, specifically the Northern and Southern regions separated by Path 26. Given this difference, an alternative, regional based MLSA approach is much more appropriate.

In addition to being an unjust cross-subsidy between regions, an improper MLSA harms market efficiency by creating a disincentive for loads in high loss areas to join the CAISO. As

the footprint and the transmission system of the CAISO Control Area change over time, a regional MLSA approach can be extended to accommodate additional regions in a fair way. Providing incentives for increased Regional Transmission Organization (RTO) membership may result in savings to California consumers from a decreased share of the CAISO administrative costs and cheaper power having access to the CAISO market.

Market Participant Implementation Impact (\$ and resources)

The CAISO can implement a new MLSA method using the current settlement codes. There will be no implementation impact on market participants.

ISO Implementation Impact (\$ and resources)

To implement a new MLSA method would require minimal changes to data collected, if any. In addition, the change requires very minimal, one-time modification in the MLSA logic.

Initiative 4: Standard Capacity Product Enhancement

The Standard Capacity Product (SCP) is an important performance-based mechanism to incentivize resources to be available in the energy markets at the appropriate times. It is also being proposed as the model for the Flexible Standard Capacity Product (FSCP) in initiative 9.1, Flexible Resource Adequacy Criteria and Must Offer Obligations (FRACMOO). PG&E believes that as the CAISO's intra-day operational needs evolve and the number of capacity products increases, it is important that:

- Reasonable substitution and replacement rules are in place to provide market participants the flexibility to meet performance-standards at reasonable cost and complexity.
- SCP and FSCP are sending the proper incentives to resources based on the value of availability to the CAISO.

The Capacity Procurement Mechanism (CPM) settlement price is currently used as the SCP availability incentive price. Thus, PG&E recognizes that enhancements to SCP relate to stakeholder initiative 9.4, the Joint Reliability Framework, in that an ISO-run capacity auction to replace or augment CAISO's existing CPM has the potential to yield market-based prices for SCP and FSCP, which may reflect the value more accurately of an available resource to the CAISO across seasons.

PG&E's ranking of the Standard Capacity Product Enhancements initiative is based on enhancements in the following areas. The final score provided for each of the four criteria is based on an equally weighted average of scores in these two areas.

- Enhancements to the RAAM tool
- Set Monthly Adjusted Non-Availability Charges

Standard Capacity Product Enhancement - High Level Prioritization Criteria Matrix

| | | Criteria | HIGH | MEDIUM | LOW | NONE | Your Score |
|---|-------------|---|-------------------------------------|-------------------------------------|---|--------------------|--------------------|
| | | | 10 | 7 | 3 | 0 | Use 0, 3, 7, or 10 |
| A | Benefit | Grid Reliability | Significant Improvement | Moderate Improvement | Minimal Improvement | No Improvement | 3 |
| B | | Improving Overall Market Efficiency | Significant improvement | Moderate improvement | Minimal improvement | No impact | 7 |
| C | | Desired by Stakeholders | Universally desired by stakeholders | Desired by majority of stakeholders | Desired by a small subset of stakeholders | No apparent desire | X |
| D | Feasibility | Market Participant Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 10 |
| E | | ISO Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 7 |
| | | | | | | Total | 27 |

Grid Reliability

The RAAM tool currently has significant restrictions that limit the feasibility of substitution of non-Resource Adequacy (RA) capacity for RA capacity that must take a forced outage. For example, if a local RA resource must take a forced outage, then only a non-RA resource in the same local area may be substituted through the RAAM tool; if a Load Serving Entity (LSE) does not have a suitable local resource available then no substitution is possible, despite the fact that system grid reliability may be improved by a system resource substitution. These sorts of limitations reduce the ability of LSEs to provide substitute RA capacity that would increase grid reliability when RA resources must take a forced outage.

Additionally, the CAISO has indicated that, as part of the Outage Management System (OMS) Replacement Stakeholder Process, the RAAM will be incorporated into CIRA or the

new OMS and the unit substitution rules will be relaxed to allow replacement with system RA, if no local RA is available, within constraints. Further, the OMS will reflect modification to accommodate “one for many”, or “many for one” substitution. Additionally, as part of implementing FRACMOO, it would be necessary for the CAISO to recognize the need for the same flexible replacement concept. Participants should be allowed to unbundle the RA attributes from resources necessary to maximize availability of resources to the grid and minimize the likelihood of SCP Penalties.

Today, the monthly SCP non-availability charge is the same for all months in the year. This approach neglects the varying reliability benefits an RA resource provides at different times during the year. As a result, it does not provide the correct incentive for resources to remain available during the most critical months. To provide the proper incentive, monthly non-availability charge must be set to reflect the seasonal reliability benefits, and in turn the true market value of capacity in any given month. This improves grid reliability and overall market efficiency.

Improving Overall Market Efficiency

The same restrictions that reduce the effectiveness of the RAAM tool also greatly reduce the overall market efficiency and increase costs. For example, a non-RA resource may not be used to substitute for more than one RA resource’s outage within a single operating month, despite having sufficient capacity to cover multiple outages. This can lead to over procurement and increased costs on the part of LSEs seeking substitute capacity or a refusal of generators to offer their resources as available for substitution for shorter-term outages due to the resource then being “locked out” of the substitution market for the remainder of the operating month.

As the time frame for planned outages increases from 3 to 7 days, it is even more likely that a resource will need to substitute for more than one RA resource’s outage within a given month. As the RA paradigm continues to change, the SCP should recognize the efficiency of being able to freely substitute resource adequacy attributes to meet system needs.

Market Participant Implementation Impact (\$ and resources)

Currently the RAAM tool is rarely used by PG&E due to its significant limitations and difficult, time-consuming interface. An improvement in the tool would thus require little change in current processes, and would not affect any other down-stream internal systems.

Incorporating these changes into the new OMS should not result in a significant increased cost.

Changing the monthly SCP non-availability charge does not require a change in the market participant’s systems or processes.

ISO Implementation Impact (\$ and resources)

Improving the RAAM tool would require moderate effort on the part of the CAISO in terms of software development and dollars spent to increase the robustness of the RAAM system, and possibly some changes to the internal ISO processes surrounding SCP and RA substitution.

Incorporating these changes should not result in a significant increased cost as compared to the changes required to implement the new OMS.

Changing the monthly SCP non-availability charge, a set of static values, requires minimal changes in the ISO's systems and processes.

Initiative 5: DLAP-Level Proxy Demand Response

The CPUC's recent Demand Response (DR) OIR lays out a major goal of integrating a significant portion of DR into the wholesale market in the near future. To achieve this goal, it will be important to provide DR providers with options for wholesale DR to bid into the market in a cost-effective manner. The ability to bid DLAP- Level Proxy DR (vs. current Sub-LAP level) will provide cost-savings and lower operational risks, which will benefit DR providers and customers while enabling the CAISO to have the awareness and control over this resource that it requires. By reducing the cost of entry into the wholesale market, DLAP-level PDR will contribute to meeting the State's policy goals of reducing GHG emissions by offsetting new generation.

DLAP-Level Proxy Demand Response - High Level Prioritization Criteria Matrix

| | | Criteria | HIGH | MEDIUM | LOW | NONE | Your Score |
|---|-------------|---|-------------------------------------|-------------------------------------|---|--------------------|--------------------|
| | | | 10 | 7 | 3 | 0 | Use 0, 3, 7, or 10 |
| A | Benefit | Grid Reliability | Significant Improvement | Moderate Improvement | Minimal Improvement | No Improvement | 10 |
| B | | Improving Overall Market Efficiency | Significant improvement | Moderate improvement | Minimal improvement | No impact | 7 |
| C | | Desired by Stakeholders | Universally desired by stakeholders | Desired by majority of stakeholders | Desired by a small subset of stakeholders | No apparent desire | X |
| D | Feasibility | Market Participant Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 7 |
| E | | ISO Implementation Impact (\$ and resources) | No Impact | Minimal Impact | Moderate Impact | Significant impact | 3 |
| | | | | | | Total | 27 |

Grid Reliability

DLAP-Level Proxy DR would facilitate bidding DR into the wholesale market (in congruence with the DR OIR’s objective) and improve reliability. Also, by giving the CAISO better visibility and control over the DR that is being dispatched, it will be able to more effectively utilize DR to maintain grid reliability.

Improving Overall Market Efficiency

Operating on a DLAP-Level would improve efficiency as it becomes more economical to operate compared to the status quo (Sub-LAP).

Market Participant Implementation Impact (\$ and resources)

DLAP-Level Proxy DR is more cost effective and therefore would result in significant cost-savings for PG&E’s ratepayers (estimated \$10 million in avoided upfront costs) and customers of other DR providers compared to Sub-LAP level PDR.

ISO Implementation Impact (\$ and resources)

The CAISO would likely incur costs to implement this initiative but these are unknown to PG&E at this time.

III. Process Improvements

PG&E offers the following comments on efforts that we believe are important for the CAISO to address in 2014, but may not necessitate a separate stakeholder initiative.

1) Develop a Process to Review the CAISO Roadmap Throughout the Year as Priorities and Workload Changes

The Catalog and its annual prioritization results in a road map of design priorities for the upcoming year. New projects may arise during the course of the year that could result in delaying the road map initiatives. Examples of such new projects that draw resources away from road map initiatives include the EIM or FERC-mandated developments.

PG&E recommends that the CAISO report out quarterly to stakeholders on its progress on moving the road map initiatives forward and provide stakeholders the opportunity to provide feedback on the CAISO's progress. The CAISO's quarterly report out could be done as part of the Market Performance and Planning Forum. The quarterly report could also be used as an opportunity to alert stakeholders of any major change on the initiatives on which it plans to work and provide stakeholders the opportunity to provide feedback on proposed change in priorities. In summary, the quarterly road map report helps do the following: 1) makes the road map a living document that is revisited throughout the year, 2) provides additional discipline in the design process, 3) provides transparency to stakeholders when the CAISO plans to make significant change in priorities, and 4) gives stakeholders the opportunity to provide feedback on significant changes in priority or other large deviations from the road map.

2) Develop a Process to Engage Stakeholders in Enforcement/Un-enforcement of Constraints

Recently, the CAISO has made several significant changes regarding constraint un-enforcement (SCE_PCT_IMP_BG and SDGE_PCT_UF_IMP_BG). Participants have been surprised with these changes and would like an opportunity to discuss such changes before

they are implemented and have an opportunity to provide input into the decision-making process.

For major discretionary modeling changes, more transparency is needed. This includes a stakeholder process that allows for a discussion between the CAISO and stakeholders, and the opportunity for stakeholders to provide input.

PG&E suggest the CAISO consider using the Market Policy and Planning (MPP) forum as the stakeholder forum for the CAISO to present these types of changes and to have a dialogue with stakeholders. Stakeholders would then be encouraged to provide feedback to the CAISO after the meeting. The CAISO could then report out at the next MPP how it considered the feedback from stakeholders and its final decision on the matter. Using the MPP would eliminate the need for a separate stakeholder process.

IV. Infrastructure and Planning Initiatives

PG&E offers the following comments on infrastructure and planning initiatives, referenced by their number in the Revised Catalog.

11.2 Deliverability Network Upgrade Planning Criteria

PG&E participated in the CAISO's December 4, 2012 stakeholder training and July 25, 2013 stakeholder call on the CAISO's technical paper and presentation on DNU planning criteria. We acknowledge the concerns expressed by BAMx and CalWEA with respect to the historic methodology differences between the CPUC and the CAISO. However, PG&E echoes the CAISO's belief that the study methodology changes instituted in GIDAP largely address the underlying concern of stakeholders. Moreover, the CPUC is in process of retooling its own RA methodology, which means any action by the CAISO in the near term would force it to attempt alignment with what's currently a moving target.

As such, we support the CAISO's position not to prioritize this initiative in 2014 as we believe such action is premature. PG&E is, however, open to re-evaluating the need in the future once the effectiveness of GIDAP can be evaluated and the CPUC methodology changes are finalized.

11.4 Transmission Interconnection Process

PG&E does not understand the need for or value of developing a CAISO Transmission Interconnection Process separate from the Transmission Planning Process at this time. PG&E believes that the CAISO's Transmission Planning Process is the most effective way for transmission developers to propose areas where new transmission is needed that may result in new transmission opportunities where the benefits outweigh the costs. Moreover, FERC Order 1000 compliance efforts at the CAISO and other Western RTOs have resulted in very positive changes that have created regularized opportunities to study new transmission lines.

11.5 Affected Systems

Expanded Affected Systems coordination efforts are PG&E's top infrastructure initiative priority at the CAISO. PG&E recognizes this will be a complex and time consuming process, but we believe that expanded efforts in this area would be well worth the resource commitment required, particularly with respect to outreach with neighboring systems to develop bilateral reciprocity agreements.

PG&E notes that the CAISO's 2014-2016 Strategic Plan specifically identifies expanded regional collaboration as one of its top three strategic objectives³. Specifically, the report states that the CAISO will "explore opportunities for deeper collaboration and partnership with other regional players to improve the reliability, efficiency and security of electric service to our respective customers." We believe that bilaterally agreed upon processes to evaluate affected system impacts of generation is a key area where significant opportunity exists to achieve this objective. We strongly encourage the CAISO to agree to further prioritize this issue in the upcoming year, and are committed to helping support the CAISO work through these complex issues.

11.6 Phase 3 Competitive Transmission Process Efficiency Enhancements

PG&E recommends that the CAISO convene an additional stakeholder initiative in 2014 to consider efficiency improvements and other refinements to the Phase 3 competitive solicitation process. The stakeholder process should draw upon lessons learned during the first round of competitive solicitations that originated from the 2012/2013 transmission planning cycle (e.g., the Imperial Valley Policy Element, Gates-Gregg 230kV line, and

³ CAISO. Building a Sustainable Energy Future: 2014-2016 Strategic Plan. <http://www.caiso.com/Documents/2014-2016StrategicPlan-ReaderFriendly.pdf>

Sycamore-Peñasquitos 230kV line) and build upon the current Competitive Transmissions Improvements stakeholder initiative. The goal of the initiative should be to identify potential improvements to streamline the application process, reduce CAISO administrative costs, and promote durable efficiency improvements throughout the Phase 3 process.