CAISO Stakeholder Meeting
Scarcity Pricing

Comments of Pacific Gas & Electric

February 13, 2008

Kurt Hansen
Market Design & Analysis
PG&E
PG&E’s Topic Areas

1. PG&E Perspective
2. Scope
3. Demand Curve Values
4. Cost Allocation
5. Demand Response
6. Capacity Payments
PG&E’s Perspective - Reliability versus Cost

- PG&E is supportive of cost effective reliability initiatives.
- However, CAISO has not quantified Scarcity Pricing’s impact on reliability or cost.
- PG&E is supportive of CAISO continued efforts to quantify both reliability impact and cost of Scarcity Pricing decisions.
Scope – Zonal Scarcity Pricing

- CAISO has the tariff authority and MRTU will have the functionality to procure A/S on a regional basis.
- PG&E seeks additional clarity and analysis regarding regional A/S procurement and how it interfaces with zonal Scarcity Pricing.
  - Explanation and justification of the regional reliability criteria including operational rules.
  - Concern about CAISO’s discretion to change the regional reliability criteria.
  - Structural assessment of market power impacts in regions by DMM.
  - Cost allocation by regions for regional A/S procurement.
  - Exploration of different demand curve values for different regions (similar to NYISO).
Demand Curve Values

- Under the CAISO’s February 6, 2008 proposal, Scarcity Reserve Demand Curves (SRDC) are established for each ancillary service (CAISO and Local).

- The CAISO proposal, however, appears to compensate providers of A/S with scarcity price premiums irrespective of the severity of the reserve shortage.
  
  ➤ Scarcity pricing under the NYISO design applies graduated premiums for increasing levels of reserve shortages.

- FERC orders guiding the CAISO’s implementation of scarcity pricing direct the CAISO to develop a reserve shortage scarcity pricing mechanism that applies administratively-determined graduated prices to various levels of reserve shortage.
Cost Allocation

♦ Under the CAISO proposal, scarcity price premiums will be reflected in the cost of ancillary services.

♦ Under the conditionally approved CAISO MRTU tariff, Ancillary Service costs are averaged on a system-wide basis and allocated based upon the responsibility of individual Scheduling Coordinators.

♦ Under the CAISO’s February 6, 2008 proposed pricing design, implementation of scarcity pricing will be on a zonal basis; however, costs for ancillary services, including any scarcity price premiums are to be allocated on system-wide basis.

♦ The CAISO’s proposal to incur A/S costs on a zonal basis and allocate those costs on system-wide basis appears to be inconsistent with cost causation principles and could incite inappropriate behavior.

♦ Scarcity pricing premiums should be allocated on a zonal basis to the extent the CAISO implements scarcity pricing on a zonal basis.
Scarcity Pricing and Demand Response

♦ PG&E supports the simultaneous roll out of Scarcity Pricing and the new MRTU 1A Demand Response Programs.
  ➤ DR programs will help mitigate scarcity events.

♦ PG&E is working on Air Conditioning Cycling Program for MRTU 1A and beyond.
  ➤ AC Cycling to provide ancillary service in cooperation with the CAISO.
  ➤ Possible Pilot in 2009.

♦ PG&E supports modifying its Interruptible Program (BIP – Base Interruptible Program).
  ➤ Currently callable with Stage 2 Emergency.
  ➤ Plan to modify BIP, over time, so can call prior to a Stage 2 Emergency.
  ➤ Plan to address during 2009-2011 DR program cycle (Anticipate filing in May 2008).
  ➤ Will need to work closely with customer groups and CPUC on these changes.
Scarcity Pricing and Capacity Payments

* PG&E is concerned about the possibility of overpayment to RA providers given the current arrangement of securing RA through bilateral agreements combined with the proposed market design for scarcity pricing.

* We understand the CAISO’s position that the two sides of the bilateral agreement should take into account the revenue from scarcity pricing in the negotiation of future RA contracts.

* However, Scarcity Pricing must take into consideration bilateral agreements that pre-date the adoption of the program - RA units that have already effectively been paid for scarcity should not receive a second payment as part of the CAISO’s scarcity mechanism.

* PG&E is interested in exploring scarcity design options which may minimize the possibility of overpayment for contracts predating Scarcity Pricing implementation.