Comments of Pacific Gas and Electric Company
Bidding Rules Enhancements Straw Proposal 4/22/2015

Submitted by	Company	Date Submitted
Maureen Quinlan 415-973-4958	Pacific Gas & Electric	May 15, 2015

Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Bidding Rules Enhancements April 22nd Straw Proposal. PG&E will focus these comments on the changes that CAISO has proposed for differentiated bidding headroom (section 7.1), greenhouse gas costs for natural gas suppliers (section 7.2), adjusting gas transportation adders (section 7.3), improvements to the energy price index calculation (section 7.4), and allowing for "market" resource characteristic (section 8.1).

PG&E's response to the FERC Order 809 section of the proposal has been captured in our comments submitted on May 7, 2015. PG&E will continue to address the FERC Order 809 issue through the separate comment and meeting schedule that the CAISO has established.

PG&E's main points are:

- PG&E supports the CAISO's proposal to differentiate the bidding headroom on the components of the commitment costs. (Proposal Section 7.1)
- PG&E supports CAISO's proposal to develop a GHG cost methodology for natural gas suppliers once the CPUC rulemaking is completed. (Proposal Section 7.2)
- PG&E supports CAISO's proposal to differentiate gas transportation adders on the PG&E system between resources connected directly to the backbone transmission network and the local network. (Proposal Section 7.3),
- PG&E would like more clarity on the energy price index (EPI) calculation as described in CAISO's Business Practice Manual. (Proposal Section 7.4)
- PG&E does not support the CAISO's proposal to create "market" characteristics in the resource Master File separate from the physical characteristics, as it is unlikely to achieve the CAISO's intention of unlocking additional resource capabilities. (Proposal Section 8.1).

I. **PG&E supports the CAISO's proposal to differentiate the bidding headroom on the components of the commitment costs, and recommends a starting point of 100% for non-gas related components.**

The proxy cost calculation includes components such as natural gas that can vary from the CAISO's index, and other components like the grid management charge, which are unlikely to diverge from the ISO-calculated cost. CAISO has proposed to differentiate the bidding headroom on these different components and PG&E supports this approach.

PG&E supports maintaining the 125% bid cap on the natural gas price component of commitment costs. PG&E proposes to use a100% bid cap initially on all other commitment cost components (GHG, GMC, MMA, Non-fuel related costs, default VOM, and auxiliary energy). The bid caps on these non-gas components could be adjusted up if CAISO has analysis to support that additional headroom is needed.

II. **PG&E supports CAISO's proposal to develop a GHG cost methodology for natural gas suppliers once the CPUC rulemaking is completed.**

PG&E agrees with CAISO that developing a sound GHG cost methodology for natural gas suppliers is important to avoid potentially double charging those entities (once through GHG adders and once through the gas index price). Given that a CPUC decision on Phase 2 of the Natural gas utility Cap-and-Trade issues rulemaking (R.14-03-003) is expected in the next few months, it is not prudent to invest CAISO and stakeholder resources in developing a solution without knowing the outcome of the CPUC rulemaking.

III. **PG&E supports CAISO's proposal to differentiate gas transportation adders on the PG&E system between resources connected directly to the backbone transmission network and the local network.**

As PG&E outlined in the CCE2 initiative, we support the development of multiple gas transportation adders for the PG&E region (similar to currently practice in Southern California). This would create indices that better reflect the sometimes large difference in gas transportation costs faced by units on the gas pipeline backbone versus units on the local transmission system. This would improve the proxy cost calculation by better reflecting the costs faced by generation, resulting in more efficient dispatch decisions and ensuring adequate cost recovery. PG&E looks forward to working with CAISO to provide the data necessary to inform the adder development.

IV. **PG&E would like more clarity on the energy price index (EPI) calculation as described in CAISO's Business Practice Manual.**

As part of its data transparency efforts, CAISO describes the EPI calculation in its update to the Market Instruments BPM, which is used to calculate the Auxiliary Power component of commitment costs. PG&E would like to further understand the EPI calculation and poses the following questions for future CAISO and stakeholder discussions.

- The logic of paying the higher of the retail or LMP is not clear. Why is the higher of these two appropriate, other than for possible ease of implementation?
- Is it possible to have the resource pre-select the use of their preferred/applicable index (i.e. retail or LMP)?
- CAISO will currently adjust the forward wholesale monthly price projections – only upwards – based on historical monthly prices. Why is an adjustment needed, and why only upwards?

V. **PG&E does not support the CAISO's proposal to create "market" characteristics in the resource Master File separate from the physical characteristics, as it is unlikely to achieve the CAISO's intention of unlocking additional resource capabilities. PG&E recommends CAISO hold a working group to discuss the underlying issue of contractual limits and Master File characteristics.**

CAISO proposes to create an additional subset of resource characteristics in the Master File to "support market operations". These market characteristics would be used in the ISO market for normal operations, and at a minimum would represent the resource's RA requirements. CAISO could access additional physical characteristics for purposes of exceptional dispatch.

PG&E does not support the CAISO proposal, as it creates an artificial distinction between "market" characteristics and "physical" characteristics which does not exist in reality. A small subset of resources are subject to environmental permits which result in true "physical" values in the Master File. The "physical" value of all remaining resources (the majority) are based on engineering and economic judgment. For most resources, the "physical" and "market" characteristics will be the same – e.g. the number of starts that are permitted under the contract. CAISO will not be able to access more starts than what PG&E is contractually able to offer.

The values in the Master File are changed for a reason, which is frequently due to environmental constraints. Having a "shadow" set of Master File values does not get to the heart of this issue. PG&E recommends a workshop to further discuss contractual

limitations and an appropriate way to address changing values in the Master File and market optimization.

PG&E also refers CAISO to the numerous comments filed on the subject of contractual limitations from parties (including PG&E, SDG&E and the CPUC) during Commitment Cost Enhancements (CCE) Phase 2.[1] As SDG&E pointed out during that stakeholder process, the operational pattern of Combustion Turbines (CTs) has evolved significantly in recent years due to the increased use of Variable Energy Resources (VERs) and the drought. As a result, these CTs are operating beyond the maximum start limits allowed under contracts and/or projected during the original permitting process for the units.

PG&E urges the continued discussion regarding contractual limitations and how they can best be planned for and factored into CAISO dispatch protocols. PG&E also suggests this topic may be better addressed in CCE3, which PG&E has already requested include a discussion regarding the appropriate methodology to translate environmental or design restrictions into start and run-hour limitations.

[1] http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=563681DA-B339-4937-ADBF-3C0B235A921C