Comments of Pacific Gas and Electric Company

Price Inconsistency Draft Final Proposal

Submitted by		Company	Date Submitted
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Pacific Gas & Electric (PG&E) appreciates the opportunity to participate in the stakeholder process for the California Independent System Operator's (CAISO) Price Inconsistencies Caused by Intertie Constraints initiative and to submit comments regarding the May 18, 2011 Draft Final Proposal.

PG&E remains opposed to the CAISO pursuing any market change that would result in two prices at a single intertie point. Given the relatively small magnitude of this problem ($250,000 per month), PG&E is wary of making any permanent market change that could have unintended consequences. As an alternative, PG&E suggests that simply offering make-whole payments to exports, as is currently done for imports, may be a simple and preferred solution. Finally, the CAISO must allow sufficient time in this stakeholder process for market participants to vet any alternative proposals and for the DMM and MSC to weigh in on the design options before a draft proposal is taken to the Board.

1. Summary of CAISO Proposal

<u>The CAISO Advocates Creating Two Separate Prices for Physical and Virtual Awards</u>

The CAISO originally presented two options to solve the intertie price inconsistency caused by convergence bidding. Option A created two prices whenever the physical import or export constraint was binding. Option B, however resulted in a single price and the curtailment of virtual awards. In this new proposal, the CAISO presents option A as the only viable solution despite widespread stakeholder concerns with creating two prices at the interties. Option B is shown to have a flaw which makes it susceptible to gaming. No other options are presented.

2. Creation of Two Separate Prices (Option A)

<u>Continue to Oppose Creation of Two Separate Prices at the Interties</u>

PG&E shares the concerns expressed by other market participants and continues to oppose creating two separate prices at a single intertie point in the IFM. In this proposal, the CAISO briefly describes why it believes there is not a serious concern for market manipulation. However, PG&E is still wary of implementing such a fundamental change in an accelerated fashion and the possibility of creating other unintended consequences. Given the relatively small magnitude of this problem, pursuing a significant and controversial market change may not be the best option.

3. Possible Alternative Proposal (New)

Make-Whole Payments for Exports could be a Simple Solution to This Limited Problem

During the May 25th stakeholder call, a number of market participants seemed supportive of the idea of creating a make-whole payment structure for exports rather than pursuing an alternative pricing option. PG&E is open to further discussion of this proposal as it could be a simple solution with limited unintended consequences. It is our understanding that imports already receive make-whole payments if they are awarded outside of their bid curve, but that exports lack such a payment. A similar make-whole settlement already exists for load and exports in the event that a price correction is made after the market clears. Simply expanding that mechanism to cover this type of price inconsistency may be the simplest solution.

4. Other Comments

The Timeline of This Stakeholder Process Should Be Expanded

Given that stakeholders are largely opposed to the CAISO's current proposal, the timeline of this initiative should be expanded. Specifically, at least one more round of proposals should be put out so that stakeholders can comment on make-whole payment solutions or any other alternatives presented (including doing nothing). Also, the stakeholder process should be extended to allow enough time for the DMM and MSC to weigh in on the design option before a draft proposal is taken to the Board. Having adequate time to consider other options and get input from the DMM and MSC is critical because this process will result in a permanent change in an important part of the CAISO market.