Pacific Gas and Electric Company®

Commitment Cost Enhancements Initiative
August 27, 2014

Submitted by	**Company**	**Date Submitted**
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Pacific Gas and Electric Company (PG&E) respectfully submits the following comments on the California Independent System Operator's (CAISO) Commitment Cost Enhancements Second Revised Straw Proposal.

PG&E's chief comments are as follows:

1. CAISO should be prepared to file a tariff waiver to implement the gas price update element of this proposal by October 1, 2014 if any delay threatens the implementation of this initiative by December 1, 2014.
2. CAISO should manually adjust the gas price input on days when there is a significant gas price decrease (25 %). This would assure reasonable costs and market efficiency and would likely occur infrequently enough so as not to present a significant administrative burden.
3. CAISO should ensure that retaining the registered cost option for use limited resources does not result in an increase in uplift cost by incenting resources currently operating in the market without any CAISO use limitation designation to apply for use limited status.
4. CAISO should ensure that the BPM and tariff changes related to the implementation of this initiative are clear and consistent with the policy objectives outlined in the stakeholder process, particularly regarding non-gas-fired resources.
5. In the upcoming Bidding Rules Initiative, CAISO should improve the proxy cost formula and inputs so that a lower than 25% buffer would be reasonable and consider alternatives to the proposed mitigation.

PG&E's detailed comments are as follows:

1. **CAISO should be prepared to file a tariff waiver to implement the gas price update element of this proposal by October 1, 2014 if any delay threatens the implementation of this initiative by December 1, 2014.**

   To ensure that the gas supply and inefficient dispatch issues that threatened CAISO grid reliability in December, 2013 and February, 2014 do no reoccur in winter 2014/2015, CAISO should commit to filing a preventive tariff waiver if there are any delays in the implementation of this initiative. The wavier should be similar in design to the emergency tariff waiver granted in spring 2014. For an effective date of December 1, CAISO should commit to filing this waiver by October 1.

2. **CAISO should manually adjust the gas price input on days when there is a significant gas price decrease (25%) would assure reasonable costs and market efficiency and would likely occur infrequently enough so as not to present a significant administrative burden.**

   In its response to prior comments on this topic, CAISO cited the goal of balancing market power concerns with the administrative burden of adjusting the gas price input into the minimum load and start-up cost calculation when there is a significant decrease in day over day gas prices. Historically, day-over-day gas prices decreased significantly very infrequently: CAISO gas index prices decreased by more than 20% from the previous day only 3 times since 2009. The administrative burden likely would not be large.

   The potential cost impact to load, however, is large and unnecessary (in our previous comments PG&E estimated a $6 million dollar cost due to inflated day-ahead energy prices on February 7). As outlined in the CCE proposal, manually updating the gas price input would affect not only commitment cost mitigation but also default energy bids and generated bids. Manually updating the gas price on days where there is a decrease of 25% or greater in gas prices would protect against unnecessary price inflation.

   In general, mitigation should be applied when the incentive to increase profit exists and the CAISO should not assume that all market participants will bid economically, as this is part of the core reason for applying the mitigation to unit commitment costs in the first place.

3. **CAISO should ensure that retaining the registered cost option for use limited resources does not result in an unreasonable increase in uplift cost by unnecessarily allowing resources currently operating in the market without any CAISO use limitation designation to receive use limited status.**

PG&E does not oppose retaining the registered cost option for use limited resources (ULRs) until the opportunity cost adder is adopted. PG&E appreciates that retaining the registered cost option for these resources may facilitate a more efficient use of limited starts or run hours.

However, the retention of a higher cap option for as subset of resources may incent some market participants that currently participate in the market without a ULR designation to apply for the designation for the primary purpose of maintain the 50% buffer. To mitigate this risk, the CAISO should apply a high standard before granting a generator unit use-limited status and the DMM should monitor and report on any changes in the total capacity of use limited resources in the market and associated uplift payments.

Because all generating units are subject to environmental restrictions in California and because it would be unreasonable to consider all gas-fired generation in the state use-limited, CAISO's assessment of whether a resource qualifies as a ULR should focus on the likelihood of exceeding its start or run-hour limitations. For units are currently operating without a ULR designation but apply for a ULR designation after the CCE initiative is implemented, the scheduling coordinator should be required to provide either a.) historic data demonstrating that the unit exceeded its limitations in the past and an explanation of why the unit is likely to exceed its limitations again without a ULR designation, or b.) historic data demonstrating that demonstrates that the unit has nearly exceeded its limitations and an explanation of why the unit is likely to exceed its limitations in the future without a ULR designation.

4. **For non-gas-fired resources, CAISO should ensure that the BPM and tariff changes related to the implementation of this initiative are clear and consistent with the policy objectives outlined in the stakeholder process.**

   PG&E appreciates the CAISO's previous responses clarifying that this initiative does not intend to change the way start-up and minimum load costs are mitigated for non-gas-fired resources (with the exception of the additional of a 25% buffer for non-gas-fired resources on the proxy cost option). It is important that any BPM and tariff changes regarding non-gas-fired resources that result from this initiative are clear and consistent with the objectives CAISO has already outlined in this policy process so that there are no unintended negative impacts on these resources.

5. **In the upcoming Bidding Rules Initiative, CAISO should improve the proxy cost formula and inputs so that a lower than 25% buffer would be reasonable and consider alternatives to the proposed mitigation.**

PG&E thanks CAISO for its response to our previous round of comments on this topic. We are encouraged by CAISO's statement that "the proposed proxy headroom increase offers a balance during this transitional period." PG&E appreciates the pragmatism of CAISO's approach in this initiative and looks forward to continued improvements through the bidding rules initiative.

PG&E remains concerned that the 25% buffer on the proxy cost calculation proposed by CAISO is unnecessarily high and does not provide stringent mitigation in circumstances in which a unit may be able to exercise market power (e.g. when there is a minimum online commitment (MOC) constraint in place). PG&E would ultimately like improvements to the proxy cost formula to better reflect unit-specific costs and the adoption of a lower buffer and has the following suggestions for improving the proxy cost formula with the goal of lowering the buffer below the currently proposed 25%:

a. Improve the MMA review process and transparency;
b. Develop an opportunity cost adder for ULRs; and
c. Use ICE daily to ensure the most up to day gas price.

Additionally, DMM should assess alternatives to the proposed mitigation including varying the buffer depending on market conditions and lowering the buffer when a MOC is in effect. Finally, as part of this process, DMM should review uplift charges to determine if the changes to mitigation proposed in this initiative affected uplift amounts.