

Comments of Pacific Gas and Electric Company Supplemental Real-Time Imbalance Energy Offset Paper

PG&E submits these comments in response to CAISO staff's supplemental Straw Proposal on Mitigation and Allocation of Real-Time Imbalance Energy Offset Release issued September 23, 2009. This CAISO paper is a follow-up to an earlier paper issued August 24, 2009 and contains additional cost data, revisions to the two-tier allocation option and specific request for comments on a two-tier allocation alternative.

As indicated in PG&E comments on September 4, 2009, based on the CAISO currently proposed methodology, PG&E continues to oppose the implementation of two-tiered cost allocation of imbalance offset costs. Many stakeholder including PG&E support cost allocations based on cost-causation, however the CAISO two-tier option does not sufficiently follow this principle and cannot be supported at this time. PG&E does support the continued CAISO improvements and mitigation of the underlying issues with HASP and RTD price divergence.

Two-Tiered Proposal Does Not Sufficiently Follow Cost Causation

As PG&E understands the proposal, the CAISO two-tier option would effectively allocated first-tier imbalance offsets costs to positive UIE for load (overscheduled) and negative UIE for generation when the CAISO has net exports in HASP, and to negative UIE for load (underscheduled) and positive UIE for generation when the CAISO has net imports in HASP.

The CAISO has indicated that the key drivers to the large real time imbalance offsets have been:

- a. Significant differences in the RTD energy price over the HASP energy price combined with substantial negative imbalance HASP energy, i.e. energy sold as exports at the inter-ties in HASP.
- b. The effect of using an average hourly price for RT demand imbalance energy settlement.

Based on further analysis, the CAISO has determined that the root causes for the large differences between RTD and HASP (item a. above) have included a broad number issues including: revising load forecast between HASP and RTD with at times, operator forecast biasing upwards from one to three hundred mws; underscheduling in the IFM coupled with CAISO under forecasting in RUC (and operators biasing to increase HASP imports); overgeneration during off peak periods (and operator bias in HASP to export for RTD flexibility); overgeneration during steep load ramping-up periods (and operator bias in HASP to export for RTD flexibility); operator biasing downward flow limits on internal branch groups after HASP; and the loss of generation capacity in RTD. In

October 2, 2009

addition, HASP and RTD prices may diverge for other reasons as well including differing resource availabilities and ramping requirements, use of Exceptional Dispatch, and potentially other variations in transmission and operator imposed constraints.

Significantly, the CAISO has also stated that the effect of hourly settlements for RT demand imbalance (item b. above) is also a key factor to the large imbalance offset amounts.

As outlined above, there are many contributing and overlapping causes for the imbalance offset amounts. The CASIO two-tiered proposal for the allocation has narrowly and inappropriately targeted certain RT imbalances for first-tier allocation of such offset charges. These RT imbalances at various times may or may not be contributing factors to the imbalance offset charges, however there are clearly other factors that cause these offset charges. The CAISO two-tier proposal does not sufficiently follow cost causation and PG&E does not support its adoption in its present form. If a two-tier option is considered further, this consideration should also address the impacts of future CAISO market changes including Scarcity Pricing and Convergence Bidding, both of which may have material impacts to the realtime imbalance offset charges.

However as the preferred alternative, PG&E urges the CAISO to continue identify and mitigate factors causing the HASP and RTD price differences, with sufficient resolution and convergence here, the issue of allocation disappears.

For follow-up or questions, please contact Ann Segesman (415-973-5263) or Glenn Goldbeck (415-973-3235).