November 15, 2006

Comments of Pacific Gas and Electric Company
On Real-Time LAP Price Computation Whitepaper of October 26, 2006

PG&E provides these comments in response to an October 27, 2006 request by the CAISO to provide input on a proposed new methodology for the computation of real-time Load Aggregation Point (LAP) prices under MRTU. PG&E generally supports the new CAISO approach with the provision that all demand share equally in support of the uplift costs, including in-area loads, exports and virtual bids.

The existing MRTU Tariff establishes the use of two real-time LAP prices for the settlement of load deviations; one applicable for positive uninstructed deviations and the other applicable for negative uninstructed deviations. These two prices would be established through the combination of an hourly LAP price (weighted using absolute values of nodal demand deviations) and an hourly LAP price adjustment; the adjustment would be added to or subtracted from the hourly LAP price to determine the positive and negative uninstructed deviation charge respectively. The CAISO explained that the use of an LAP price adjustment (+/-) was selected to assure revenue neutrality associated with the use of estimated Day Ahead (DA) Load Distribution Factors (LDF). In addition to schedule deviations of load, the differences between projected DA LDFs and actual real-time LDFs can create the need for real-time redispatch by the CAISO; under existing MRTU tariffs, the costs associated with both types of deviations are assessed to uninstructed load deviations.

While solving for revenue neutrality, the CAISO approach creates a number of problems; the creation of two real-time LAP prices conflicts with the principles of locational marginal pricing, it may interfere with convergence bidding, and the settlement costs for load deviations can be distorted significantly from appropriate results. Small actual load deviations could be required to pick up potentially substantial redispatch costs associated with an inherent limitation of the MRTU market design, the required use of estimated DA LDFs.

To address these problems, the CAISO has proposed to revise their approach to real-time LAP prices. The CAISO Whitepaper outlines that a single real-time hourly LAP price (weighted using total real-time nodal demand) would be used to settle both positive and negative uninstructed load deviations, and that redispatch caused by the use of estimated DA LDFs would be allocated to all metered CAISO demand.

PG&E generally supports this change; however the costs associated with LDF redispatch should be supported equally by all entities that choose to schedule demand with and gain benefits through the CAISO markets.

The CAISO proposal however limits the allocation of the neutrality uplifts to only metered CAISO demand; PG&E objects to this limitation. Uplift costs should be allocated to metered loads, plus exports, plus virtual bidding participants.

The use of estimated LDFs enables and is necessary for the CAISO to offer the proposed forward spot MRTU markets; furthermore LDFs represent a core element in the determination of LMPs and market results. It is therefore appropriate to assess this fundamental market support cost to all categories of demand that receive the direct and indirect benefits from participation in these CAISO markets. Specifically, final export schedules should be included in the uplift cost allocations as should virtual bid participants. The settlement treatment and possible fees associated with virtual bids has yet to be established by the CAISO, however some fair allocation of the LDF related uplifts costs in this area is appropriate.

PG&E recommends that the CAISO continue with the proposal to revise the methodology of real-time LAP computation and cost allocation, provided that the CAISO approach is modifies such that all categories of demand are equally assessed the uplift costs. PG&E looks forward to working with the CAISO and other stakeholders in developing this proposal further. For follow-up or questions, please contact Brian Hitson (415-973-7720) or Glenn Goldbeck (415-973-3235).