

**Comments of Pacific Gas and Electric Company
On the ‘MRTU Release 1 Implementation of Preferred Integrated Balancing
Authority Area Modeling and Pricing Options’**

PG&E provides these comments in response to the December 14, 2007 CAISO staff discussion paper on ‘MRTU Release 1 Implementation of Preferred Integrated Balancing Authority Area (IBAA) Modeling and Pricing Options’ (Proposal).

While not necessarily adverse to the CAISO staff proposal, PG&E cannot at this time affirmatively support implementation without a more thorough examination of the possible impacts to reliability, congestion and pricing. Additional analysis from the CAISO staff and a reasonable stakeholder review process must be provided.

Background

The CASIO staff proposal is a recent but significant change to the network modeling and settlement treatment for IBAAAs which will have important implications for all CAISO market participants. The SMUD/Western and TID control areas were originally intended to be modeled in full detail under MRTU with LMPs established for all resources and Scheduling Points within the IBAAAs¹. However it appears that in August the CAISO decided to revise this approach and would not determine internal constraints or establish LMPs for internal IBAA resources, but as an alternative, advocated for the use of special scheduling and pricing hubs. This approach was discussed with the affected IBAAAs and formally issued in the December 14, 2007 Proposal with specific recommendations for the creation and use of special WAPA, SMUD, MID, TID, and Roseville Hubs. The CAISO staff has indicated that these changes would be effective with the start of MRTU.

Comments and Concerns

Outlined below are some current concerns with the Proposal; as more information is made available and as a greater understanding is developed, PG&E may submit additional comments.

Arbitrage and Gaming Opportunities

The development of multiple IBAA pricing hubs with simplified modeling may create unwarranted gaming opportunities. While the CAISO staff has acknowledged this concern, it appears the proposed solution is a combination of controlling scheduling IDs and monitoring. While after-the-fact assessments have tremendous value, the CAISO staff should analyze *a priori* the possibility and cost impacts of inappropriate arbitrage² before any such approach is adopted. These insights could help shape the modeling and pricing approaches of the Proposal. Of particular note, this concern is amplified when considered with Convergence Bidding opportunities of MRTU Release 1A.

¹ CAISO Joint Quarterly Seams Report to FERC Third Quarter 2007, pg 2

² Strategies similar to the circular ENRON Death Star scheduling; or exploiting other modeling flaws

Stakeholder Process

The CAISO has not provided an opportunity to date for non-IBAA stakeholders to discuss and evaluate the impacts of the CAISO proposal. While this proposal may most directly apply to IBAAAs, the modeling, pricing, reliability and potential gaming implications have an important impacts to all MRTU stakeholders. A meaningful stakeholder process is needed.

Reason for Change

It is unclear what reasons, problems and/or compromises the CAISO staff considered in electing to revise the earlier ‘full LMP’ approach in favor of the simplified ‘hub’ approach. The simplified approach has inherent modeling limitations and introduces possible gaming opportunities; while this approach may represent the best trade-off, the CAISO staff has not demonstrated why the initial approach (that avoids these problems) is not reasonably achievable.

Analysis

Substantially more analysis is needed from the CAISO with respect to market impacts of the Proposal. The revised IBAA pricing proposal will have impacts to the energy, congestion and loss components of LMP; PG&E requests that the CAISO staff thoroughly assess these impacts and resulting prices under a wide variety of expected and adverse scenarios. In addition, any implications to CRR revenue adequacy should be assessed³.

Timing

Given the above concerns, it is important for the CAISO staff to allow sufficient time for a through stakeholder vetting of the issues and possible alternatives. The seemingly abbreviated process to date has not been sufficient to assess or support such a change concurrent with the start of MRTU.

For follow-up or questions, please contact Brian Hitson (415-973-7720), Peter Griffes (415-973-3335), or Glenn Goldbeck (415-973-3235)

³ For example any CRRs allocated on specific InterTies but subsequently settled at IBAA hubs.