



PG&E's Comments on Potential Change in Rule Limiting Bids Considered in IFM

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Bahaa Seireg
b1st@pge.com

Pacific Gas & Electric Company (PG&E) appreciates the opportunity to comment on the rule limiting bids considered in IFM. We are supportive of the CAISO's effort to study this issue.

BACKGROUND

Currently, Local Market Power Mitigation (LMPM) uses forecast demand (rather than bid-in demand) and only the pool of resources committed in the All Constraints run form the pool of resources that are available for commitment in the IFM. The rationale for limiting the pool of resources is to avoid the potential for relatively high priced unmitigated bids to be dispatched and set prices. However on July 26, the demand that cleared the IFM was 7% greater than the CAISO forecast, causing the IFM to clear at the high price segment of the bid-in demand curve; prices rose to between \$400 and \$500 in the Day-Ahead Market. Given this event, the DMM has expressed interests in quickly finding a solution that will allow all more resources to be available in the IFM. Below is a summary of the DMM's four proposals:

Approach (1) - In this approach LMPM process will continue to be run against the CAISO forecast; however, all bids will be available in the IFM.

Approach (2) - Similar to "Approach 1" except that the CAISO would establish a threshold for determining when to re-run the IFM using all supply bids.

Approach (3) - The greater of the CAISO forecast and *total* bid-in demand will be used in the LMPM.

Approach (4) - Use *cleared* bid-in demand in the LMPM.

COMMENTS

The CAISO identified four approaches in their Straw Proposal for Modifying Rules Limiting Supply Bid Pool in the Integrated Forward Market. **Of the four approaches proposed, PG&E supports the implementation of Approach (1) as well as a modified version of Approach (3), in the short term until the CAISO is able to implement Approach (4) as mandated by FERC.**

Approach 1 has the following advantages:

- (1) Ensures that the pool of resources available to the IFM is unconstrained preventing price spikes when the bid-in demand significantly exceeds the CAISO forecast.
- (2) Ensures that generators that are economic to serve bid-in demand are not excluded due to the LMPM process.

(3) Requires limited software changes and can be quickly implemented.

While Approach (1) allows the possibility of unmitigated bids to set the market clearing prices, the quantity of unmitigated bids accepted will be a small percentage of the overall cleared supply. Furthermore, unmitigated bids give the optimization more flexibility to meet bid-in demand. In the case of 7/26, the CAISO identified that the cleared price would have been approximately \$65 instead of \$400+ if unmitigated bids were allowed into the IFM. Despite the possibility of unmitigated bids setting the market clearing price, PG&E finds the adoption of Approach (1) for the reasons identified above to be a reasonable alternative.

Approach (2) has the benefit of preventing some of the spikes but the threshold approach will limit only a fraction of them. Furthermore, the results from the IFM run with Approach (2) could exclude generators that would have been economic to dispatch. The only benefit of Approach (2) over Approach (1) is that under most circumstances the CAISO IFM performance time will be faster but even this benefit is outweighed by the potential dangers of increased time when performing a re-run is necessary. Thus, PG&E does not support Alternative (2).

Approach (3) ensures that all resources that are needed are not excluded from the IFM run. However, there are complications arising from linking LMPM to bid-in demand and the clear incentive to schedule load at the bid floor (-\$30); this would lead to the suppression of market prices through over-mitigation. PG&E acknowledges Southern California Edison's (SCE's) augmented proposal of this approach as a compelling possibility. However, SCE's proposal would require further debate (perhaps a lengthy stakeholder process) to determine the appropriate threshold value. Further, it is unclear as to length of time needed to develop the appropriate software changes. It would be helpful if the CAISO could provide more details regarding the implementation schedule of SCE's proposal. If this proposal can be quickly implemented and stakeholders can promptly agree on the appropriate threshold, PG&E would be very comfortable with this solution. However, it must be noted that PG&E believes that a solution must be put into action in a timely manner; if Approach (3) will take time to implement, then we would support Approach (1).