Comments of Pacific Gas and Electric Company

Intertie Pricing Inconsistency Straw Proposal

Submitted by	Company	Date Submitted
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Pacific Gas & Electric (PG&E) appreciates the opportunity to participate in the stakeholder process for the California Independent System Operator's (CAISO) Price Inconsistency Caused by Intertie Constraints initiative and to submit comments regarding the April 27, 2011 Issue Paper and Straw Proposal.

PG&E does not see any reason to link the timing of this initiative with the real-time imbalance energy offset initiative. We see pros and cons to both options proposed to address inconsistent pricing at the interties and believe that more time is needed to vet a solution, particularly since the proposed changes are intended to be a permanent feature of the CAISO's market.

1. Summary of CAISO Proposal

Since the beginning of convergence bidding, the CAISO has observed instances where physical imports and exports in the day-ahead market receive awards inconsistent with their underlying bids. Specifically, these awards always result in higher physical prices than would ordinarily clear (i.e. imports are overpaid and exports are overcharged). This anomalous outcome only occurs during intervals where the physical import/export constraint is binding. The CAISO has proposed two possible solutions to this problem:

> **Option A:** This option will result in two separate day-ahead prices at each intertie, one for physical and another for virtual awards. The cleared quantities will be unchanged from what occurs today, but prices will be consistent with market participants' bids. By definition, when there is a difference in prices, the physical positions will have a lower price than they do today.
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> **Option B:** This second option will result in a single price set by physical bids (lower of the two) and the elimination of any virtual bids that were awarded uneconomically. The downside of this option is that it requires a second running of the CAISO market software.

2. Comments on Timing and Scope of Initiative

The Timeline for This Issue Should Be Separated from the RTIEO Initiative to Allow for Further Vetting of Alternative Intertie Pricing Options

This initiative was introduced simultaneously with a stakeholder process to address the Real-Time Imbalance Energy Offset (RTIEO) uplift, but the two initiatives address separate issues and should not be linked. Because of the magnitude of the RTIEO problem (tens of millions of dollars) that initiative needs to proceed at an accelerated pace. This is not true for this initiative. The magnitude of this problem ($1 million annually) does not warrant an accelerated timeline.

Also, the nature of the market rule change is different. The RTIEO is implementing a short-term fix, whereas this initiative will result in a permanent rule change. A permanent change to the CAISO's market design warrants a more deliberative approach since there can be unintended consequences resulting from such a change. PG&E requests that this deliberative approach include review and opinion by the Market Surveillance Committee (MSC) and the Department of Market Monitoring (DMM) before the CAISO issues a Draft Final Proposal.

3. Comments on Proposed Fix

Until Further Analysis is Completed, PG&E Is Skeptical of Option A or Any Framework Leading to Multiple Prices at a Single Intertie Node

PG&E fears there could be a number of unintended consequences if two prices were to exist at a single intertie. Though we do not present a numerical example here, it is conceivable that the two prices may be arbitraged and that a new potential uplift could be created. Also, because the physical prices will necessarily be lower than the virtual prices whenever the two diverge, market participants may have an incentive to change the nature of their day-ahead bids to reflect the more lucrative nature of virtual awards. As noted above, we feel it would be worthwhile to slow down this stakeholder process and further vet the possible outcomes of multiple prices at a single intertie node.

Option B Seems Somewhat Better, but Presents Implementation Challenges for the CAISO

On a general level, we appreciate that this option maintains a single price at the intertie and respects the physical constraints of the system. We do acknowledge, however, that implementation may be problematic from the CAISO's perspective. However, the CAISO has not provided enough information about the nature or magnitude of the computational problem this approach would entail. It would be helpful if the CAISO could present some analysis of how large an implementation burden this would be compared to the current processes or for option A.