Comments of Pacific Gas and Electric Company
Bidding Rules Enhancements Revised Straw Proposal 12/3/2015

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Bidding Rules Enhancements December 3rd Revised Straw Proposal.

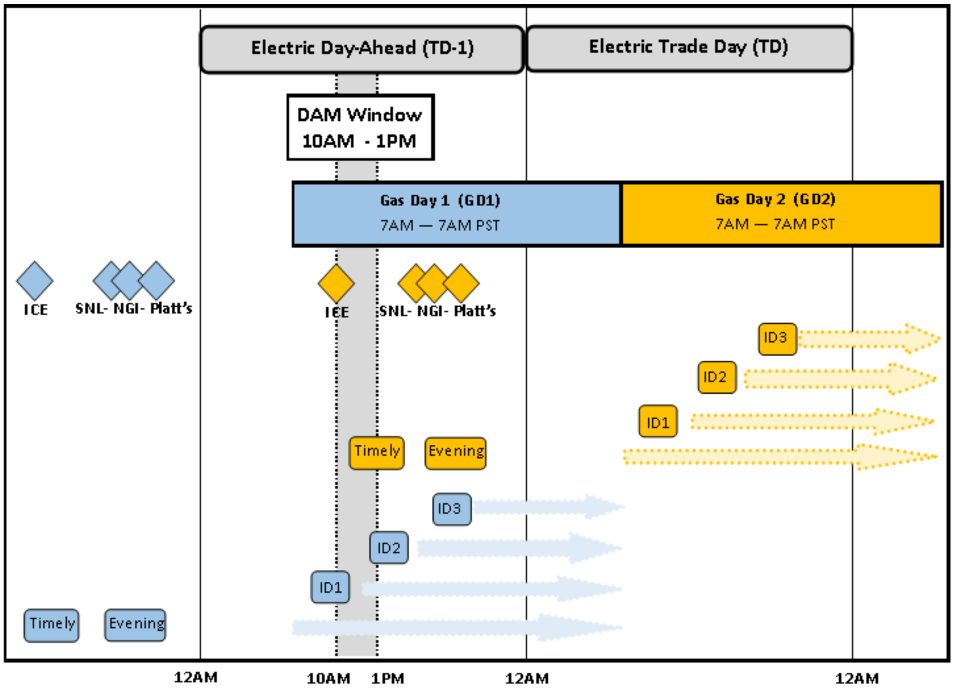
PG&E's main points are:

- PG&E requests that CAISO enumerate the net benefits of moving the DA market back one hour in order to use a 10 am ICE natural gas index price in commitment cost bids.
- PG&E does not support CAISO's proposal to provide after the fact recovery of commitment costs.
- PG&E requests that CAISO provide more details on the functionality and impact of having two values for select Master File characteristics.
- PG&E supports CAISO recalculating the Min Load cost after a Pmin rerate based upon the resource's default energy bid (DEB), and requests CAISO clarify its calculation for a decreased Pmin.
- PG&E requests that CAISO identify which tariff section(s) would be revised to accommodate this STUC policy change in order to better understand the impacts.

I. PG&E requests that CAISO enumerate the net benefits of moving the DA market back one hour in order to use a 10 am ICE natural gas index price in commitment cost bids.

CAISO has proposed two potential changes to how it incorporates natural gas price information into proxy cost bid caps, both of which involve shifting the Day Ahead market close to 11:00 am in order to use the GD2 ICE index price (CAISO figure below). PG&E would support using a more timely gas price in the daily gas price index (GPI) if the incremental benefits outweighed the costs of doing so. PG&E believes that shifting the timing of the DA market process is a significant change for market participants, and should not be pursued without careful consideration of the cost and benefits to all market participants.

Figure 5: Gas and Electric Day Timelines[1]



Market participants are currently able to manage day to day natural gas price variations using the 25% head room on the proxy-cost bid cap for commitment costs. As CAISO pointed out in the proposal, and DMM's analysis shows, this 25% headroom is sufficient to manage gas price variation in the vast majority of circumstances. From 2005 to 2015, "only about 0.2 percent of trades at the PG&E Citygate and 0.5 percent of trades at the SoCal Citygate and Border in the ICE natural gas day-ahead market for GD2 were at prices that exceeded the ICE day-ahead index for GD1 by more than 25 percent[2]." For significant gas price changes, CAISO also has a manual gas price spike procedure to update its gas price inputs in the DA market. Given that the current CAISO rules and procedures can accommodate more than 99% of gas purchases made by market participants, CAISO should carefully consider whether further refinements are truly needed, and if so scale the solution appropriately for the potential incremental benefits.

PG&E encourages CAISO to further support its position that "the benefits from improving the GPI cost input likely outweigh the drawbacks of moving the day-ahead market back an hour." At a minimum, CAISO and stakeholders should have a robust discussion about the impacts of the later market close and later market results publication. In an earlier phase of this initiative, CAISO and stakeholders considered options for shifting the DA market timeline to comply with FERC Order 809 and new gas transmission scheduling deadlines. One of the FERC 809 compliance options was to

[1] CAISO Bidding Rules Enhancements Revised Straw Proposal. Dec. 3, 2015. p 30.
[2] CAISO Bidding Rules Enhancements Revised Straw Proposal. Dec. 3, 2015. p 32.

move the market later by 2 hours (closing at 12:00, publishing by 3:00), which was not supported by any stakeholder at the time. Concerns that PG&E raised in opposition to that proposal were adverse impacts to SCs' ability to tag imports with other WECC entities, and missing the existing call windows for our Demand Response programs if market results are published later[3]. FERC approved CAISO's compliance filing to maintain the current market timing because there were significant, quantifiable potential costs to moving it[4].

PG&E is internally evaluating the impact that a one hour market timeline change could have on our processes and resources. We ask that CAISO also clearly lay out the CAISO programs and processes that would be effected by shifting the market back one hour (and how they could be mitigated) so stakeholders can assess what tradeoffs we are willing to make for incrementally improved gas prices accuracy.

II. PG&E does not support CAISO's proposal to provide after the fact recovery of commitment costs.

CAISO has proposed to allow Scheduling Coordinators (SCs) to dispute their Bid Cost Recovery (BCR) settlement if they can support actual costs exceeding the 125% proxy cost bid cap. PG&E is concerned about the ability of the CAISO to verify gas purchase invoices. This is largely an accounting exercise which should not be necessary given the existing tools to manage gas price risks – the 25% headroom on commitment costs, and gas storage.

PG&E is concerned about the incentive structure that would be created by establishing such a process. Specifically, the ability to recover gas costs at any price would not encourage gas generators to sufficiently plan and procure gas in advance of the operating day. Under this scenario, PG&E is concerned that the use of this recovery mechanism would become more frequent than CAISO anticipates, ultimately increasing costs to ratepayers. PG&E believes that gas generators, as the purchasers of natural gas, are the appropriate entities to bear and hedge the risk of gas price fluctuations. PG&E does not support shifting all risk of gas price increases onto ratepayers through BCR uplifts when prices increase beyond 125% of proxy costs. PG&E would be willing to discuss establishing a more limited recovery mechanism only in the case of resources that are Exceptionally Dispatched.

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[3]Comments of Pacific Gas and Electric on Bidding Rules Enhancements Straw Proposal. May 7, 2015. http://www.caiso.com/Documents/PGEComments-FERCOrder809.pdf

[4] Docket No. EL14-22-000 ORDER ON COMPLIANCE FILING. Dec. 17, 2015. http://www.ferc.gov/whats-new/comm-meet/2015/121715/E-6.pdf

III. PG&E requests that CAISO provide more details on the functionality and impact of having two values for select Master File characteristics.

CAISO has proposed two sets of Master File values – one for "market" capabilities and one for "design" capabilities. As PG&E described in our previous Straw Proposal comments, we are concerned that the distinction between "market" and "design" characteristics may not be as straightforward as the CAISO envisions. In addition, CAISO currently has the ability to Exceptionally Dispatch resources beyond the max start values provided in the resource Master File. It is unclear then what additional resource capabilities CAISO would gain from distinguishing between "market" and "design" characteristics under this new proposal. PG&E would like to further understand the implications of this change, and request CAISO include the following information in its next proposal.

- What ability will SCs have to update their "market" characteristics?
- What financial impact is there (if any) for resources dispatched under market starts vs. design starts?
- PG&E understands the design characteristics would only be used under Exceptional Dispatch conditions. Does this mean the CAISO will not ED a resource beyond the "design" MW value in the Master File?
- What entity is responsible for providing CAISO with the "design" characteristics (the generator or the SC)?
- Will Multi-Stage Generators be able to reflect transition limits as part of the maximum daily start limits?
- How does CAISO intend to incorporate these Master File changes into the new Use Limit Plans and Resource Adequacy Availability Incentive Mechanism (RAAIM) calculations?

IV. PG&E supports CAISO recalculating the Min Load cost after a Pmin rerate based upon the resource's default energy bid (DEB), and requests CAISO clarify its calculation for a decreased Pmin.

PG&E reiterates our support for using a portion of a resource's DEB curve to recalculate minimum load costs after a Pmin rerate, as opposed to a linear scaling of minimum load costs. CAISO has provided examples of the recalculated minimum load costs when a resource *increase*s its Pmin. PG&E requests that CAISO clarify how minimum load costs would be recalculated when a resource *decreases* its Pmin.

V. PG&E requests that CAISO identify which tariff section(s) would be revised to accommodate this STUC policy change in order to better understand the impacts.

CAISO has proposed to no longer insert STUC bids for non-RA resources that do not have a day ahead schedule and do not submit bids into the real-time market. PG&E does not oppose CAISO's proposal to cease inserting STUC bids for non-RA resources. However, PG&E asks that CAISO identify which tariff section(s) would be revised to accommodate this policy change in order to better understand the impacts.