Stakeholder Comments

Subject: MRTU Residual Unit Commitment Procedure

Submitted by	Company	Date Submitted
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Pacific Gas & Electric Company (PG&E) appreciates the opportunity to submit written comments regarding the Residual Unit Commitment (RUC) issues that were discussed at the December 11, 2008 joint CAISO Stakeholder and Market Surveillance Committee meeting.

In general, PG&E is supportive of the December 19, 2008 comments of Southern California Edison (SCE) on the Need for Immediate Action to Reform the Current Residual Unit Commitment (RUC) Process (see attached).

The Potential Price Risk of the RUC Spillover Effect is Real and Significant

PG&E shares the concerns presented by SCE on December 11, 2008 and articulated in greater detail in their December 19, 2008 written comments to the CAISO. PG&E agrees with SCE that RUC prices seen in the simulations have been higher and more volatile than expected, especially in a market that requires local Resource Adequacy (RA) capacity of 115% of monthly peak needs. We appreciate the observations made by the CAISO and the Department of Market Monitoring that the amount paid in actual RUC awards to non-RA resources appears to be small. However, PG&E, like SCE, is primarily concerned about the spillover effects that RUC prices will have on future RA prices and the potential to impact market prices for energy and ancillary services particularly by increasing default energy bids. The potential price risk of this RUC spillover effect strikes us as both real and significant.

SCE's Revised RUC Procedure Should be Implemented for Day 1 MRTU

PG&E understands that the ultimate resolution of the RUC flaws may require fundamental market and software changes and cannot realistically be implemented in time for an April 1, 2009 MRTU start date. PG&E doesn't necessarily recognize SCE's proposed solution (i.e., Revised RUC) as the ultimate long-term reform, but it does address the chief flaws and has the potential to be implemented without causing delay to the market start. Therefore, PG&E is supportive of SCE's Revised RUC proposal. The Revised RUC procedure should be implemented for Day 1 of MRTU and should remain in effect until the CAISO implements a more fundamental, long-term solution.

PG&E recognizes that Revised RUC's two pass methodology may result in a higher RUC objective function cost than the current RUC procedure. This is an outcome of not considering non-RA resources with comparably lower commitment costs (but higher RUC availability costs) in the first RUC pass. However, the higher objective function cost may not necessarily translate into higher actual costs since the RA units with higher commitment costs may never get committed in the real-time market. Even so, PG&E does acknowledge for a given day, there is a risk that Revised RUC may increase total costs (RUC and commitment costs) over the current RUC process. PG&E's assessment is that this short-term price risk is an order of magnitude less than the long-term spillover price risk discussed above, and, therefore, supports the Revised RUC approach.

Any Change in RUC Must Preserve the Current Provision Excepting Use-Limited Resources from RUC

Finally, PG&E can only support proposed RUC changes that preserve the current provision exempting Use-Limited Resources from RUC. PG&E would not support and would strongly object to any developments or process changes to the current RUC procedures that would revise the as-available nature for use-limited resources participation in RUC. Specifically, due to the multipurpose limitations associated with PG&E's hydroelectric facilities (e.g. irrigation, recreational, consumptive and power production), the current tariff provisions under 40.6.4.3.2 ("Hydroelectric Generating Units, Pumping Load, and Non-Dispatchable Use-Limited Resources will not be subject to commitment in the RUC process.") must be preserved. This is a condition of PG&E's support for SCE's Revised RUC proposal or any other proposed RUC modifications.

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