

PG&E Comments on the CAISO's 2012 GMC Rate Design Proposal

Overall, PG&E supports the CAISO's 2012 GMC rate design proposal. Under the CAISO's proposed rate design, market participants will be assessed GMC based on how much they use CAISO-run markets and the CAISO-controlled transmission system. This will provide greater transparency than exists under the current GMC rate design and will allow market participants to more easily determine the "GMC impact" of any Market Services or System Operations transaction.

With respect to the CAISO's proposed GMC to recover the costs of managing the Congestion Revenue Rights (CRRs) market, as discussed further below, PG&E believes that the CRR charge is adequate for the time being, but future improvements are necessary.

Improvements in the GMC CRR Charge

PG&E supports the CAISO proposal for a CRR GMC based on both awarded MWHs and a Bid Transaction Fee. PG&E's support is tempered by the current lack of detailed cost data associated with CRRs. PG&E believes that a MWH-based charge does not accurately apply GMC to the market participants which cause costs to be incurred. However, lacking detailed cost studies, a MWH-based GMC charge meets several of the guiding policy principles for the new GMC structure, *i.e.*, predictability, transparency, flexibility and simplicity. However, in PG&E's opinion the most important principle is cost causation and a GMC charge based on CRR MWH does not meet this criterion.

PG&E reiterates its prior comments that costs associated with CRR services are independent of the MWH awarded. CRR costs are a function of the number of allocation/auction nominations, the number of awarded CRRs, the number of CRRs transferred through the load migration process and the number of CRRs transferred through the secondary registration market. Of these cost drivers, only the cost associated with the nominations are addressed through a CRR Bid Transaction Fee, currently proposed to be \$1 per nomination.

To appropriately assess fees associated with the aforementioned cost drivers, a detailed cost study is needed. Currently, the CAISO proposes to recover the costs of running its CRR market primarily through a MWH-based charge (proposed to be \$0.01179/MWH). PG&E agrees that this is a reasonable and expedient initial rate structure. It is PG&E's recommendation that CRR cost studies be performed in the future so that improvements can be made to the CRR charge rate structure and the \$/MWH billing determinant can be replaced by a transaction-based structure.

PG&E Supports the CRR Bid Transaction Fee

PG&E would like to see the CRR Bid Transaction Fee defined as precisely as possible. In various presentations and published documents, CAISO has defined the CRR Bid Transaction Fee differently. PG&E supports a fee assessed to each nomination bid in the annual, long-term and monthly allocations and the annual and monthly auctions. In the case of an allocation tier, a nomination bid is a submission by a market participant which

specifies a source Pnode, a sink Pnode, the MW amount and the time-of-use period. For an auction, a nomination bid includes the data submitted in the allocation nomination in addition to the bid curve which specifies MW quantities and \$/MW bids. Another suitable definition for a nomination bid is a submission which generates a Nomination ID in the CAISO CRR MUI.

At the recent December 13, 2010 GMC Stakeholder Meeting, a market participant stated that a bid transaction fee does not reflect cost causation. PG&E disagrees. The CAISO's CRR systems were designed to handle a finite amount of allocation and auction bids. There are limits to how many nominations can be uploaded via the CRR MUI. A bid transaction fee better reflects cost causation than a \$/MWH GMC. While there can be some debate as to whether \$1 is the right amount to charge per nomination, the transaction-based structure is valid and appropriately reflects cost causation.

PG&E notes that the proposed CRR Bid Transaction Fee recovers approximately \$480 thousand, roughly 6.5% of the total CRR market cost of \$7.5 Million. PG&E believes that this is an acceptable amount and PG&E would support an even higher percent recovery from a CRR Bid Transaction Fee.

Going forward, PG&E would support expanding the CRR Bid Transaction Fee so as to reflect the term of the CRR being nominated. CRRs have three terms or durations: monthly durations (from the monthly processes), quarterly durations (from the annual process) and nine quarters (from the long-term allocation). Furthermore, PG&E believes that higher bid transaction fees would be appropriate for the annual and long-term process, compared to the monthly process.

GMC Inequity Between Auction and Allocation Participants

PG&E is concerned that the application of the CRR \$/MWH charge and Bid Transaction Fee affects CRR allocation participants more than auction participants. Auction participants can adjust their bids to effectively recover all, or a portion of, the cost of the \$/MWH charge and Bid Transaction Fee. That is, PG&E expects CRR auction clearing prices to reflect the new CRR GMC charge and fee. This will permit auction participants to pass such GMC costs through to the market, or else factor such GMC costs into their bids. CRR allocation participants do not have a similar mechanism at their disposal. PG&E would like CAISO to investigate this issue and consider alternative fee structures to address any inequities.

Question Regarding the Timing CRR Bid Transaction Fee

CAISO has not provided specifics regarding when the CRR Bid Transaction Fee will be assessed. The simplest method to assess the fees would be at the time the nominations are submitted. This means that the fee would be assessed from one month to nine years before the term of the CRR. PG&E asks CAISO to provide more details about the timing of the CRR Bid Transaction Fee.

Questions Regarding the CRR Data Used in the 2012 GMC Customer Bill Impacts

The 2012 GMC Customer Bill Impact analyses used invoiced billing determinant quantities for the period June 2009 to May 2010. PG&E noticed that all the bids were characterized as “Auction Bids.” Is this correct or do the quantities include Annual and Monthly Allocation Tier Nominations? In addition, did the bid count include nominations from two annual processes, *i.e.*, 2009 and 2010? Finally, it appears that no long-term allocation nominations were included. Can CAISO confirm if this is correct?