

PG&E Comments

CAISO Preliminary Results of Detailed Ranking of High Priority Market Enhancements

| Submitted by | Company | Date Submitted |
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Pacific Gas & Electric Company (PG&E) appreciates the opportunity to participate in the CAISO's Market Initiatives Roadmap stakeholder process and to submit comments regarding the August 21, 2009 Preliminary Results of Detailed Ranking of High Priority Market Enhancements and the August 28, 2009 CAISO presentation.

PG&E believes this is an important stakeholder process and offers the following comments regarding the CAISO's Detailed Ranking of High Priority Market Enhancements:

Initial Conditions Management: PG&E supports the CAISO's decision to include the Initial Conditions Management (ICM) initiative as a high priority. **However, PG&E requests that ICM be implemented as an independent initiative rather than as a component of Multi-Day Unit Commitment in the IFM as proposed by the CAISO.** Even without implementing Multi-Day Unit Commitment, stand-alone ICM functionality would yield considerable market benefits in allowing market participants to respond to changing forecasted conditions between CAISO IFM runs. For example, ICM could address situations in which a unit is not committed in the IFM because an out-of-date initial condition falsely indicates that the unit will go off-line at the end of the current day and commitment of the unit in the IFM requires another round of start-up costs. Moreover, in addition to providing significant stand-alone benefits, ICM can be implemented quickly as an independent initiative compared to the effort needed to implement the Multi-Day Unit Commitment initiative.

Load Aggregation Point Granularity: While PG&E recognizes and understands that FERC has directed the CAISO to increase the number of LAP zones within three years of MRTU, we maintain our disagreement with the CAISO's decision to rank this initiative as its third highest priority. PG&E believes the CAISO's decision to increase the ranking from its fourth to third highest priority demonstrates that the CAISO continues to overestimate the improvements in overall market efficiency and grid reliability and underestimate the effort to implement.

As explained in our August 3, 2009 comments, there is little evidence that increased granularity will improve grid reliability and PG&E maintains the 2008 ranking of LOW seems to more accurately reflect the potential benefits and required effort of this initiative. We do agree that there may be a more pronounced market efficiency benefit by enabling LSEs to more accurately incorporate price responsive load, but currently these programs are still small in magnitude relative to the level of demand. Finally, regarding desirability by market participants, this initiative ranks low for PG&E. We continue to see numerous instances in which the modeled power flows do not match physical flows. Over the next several years our collective focus should be on improving the Full Network Model (FNM) and its inputs (metering, telemetry, Load Distribution Factor algorithms). In short, more experience with current markets' performance needs to be established before initiating such a significant new market feature.

The implementation effort required of PG&E will be significant, and, other than Convergence Bidding, may have the largest impact on PG&E systems. Additionally, we believe the CAISO continues to underestimate the effort that will be required on its part. This change will likely impact bidding, settlements, CRRs, mitigation measures, convergence bidding, and other processes in significant ways.

In addition, to PG&E's previous comments we believe it is important to note that six market participants downgraded the prioritization of this initiative, and five of the six downgraded it to a low priority. In 2008 the CAISO's own analysis determined that this initiative should be a low priority and rated it as the 32nd overall priority on the list of market design enhancements. PG&E disagrees with the CAISO's decision to dramatically increase the prioritization of this initiative (32nd to 3rd highest priority) and believes this ranking does not accurately reflect the significant costs and anticipated modest benefits of this initiative.

In the CAISO's detailed ranking the *Desired by Stakeholders* score was reduced from 10 to 3. While this is a more accurate score, the CAISO has not provided compelling explanations for the significant score increases between 2008 and 2009 in many of the other categories. For example, between 2008 and 2009 the *Grid Reliability* score was increased from 3 to 7 and the *Improving Market Efficiency* score was increased from 7 to 10. In addition, PG&E believes the CAISO's score of 10 for both *ISO Implementation Impact (\$)* and *ISO Implementation Impact (Ongoing Costs)* is significantly overstated. PG&E believes that these scores are inflated and as a result, this initiative is inaccurately ranked as a high priority. PG&E requests the CAISO reexamine its recent analysis of this initiative and reassign scores that more accurately reflect Load Aggregation Point Granularity as a low priority.

Rules to Encourage Dispatchability of Wind & Solar Resources: PG&E supports the CAISO's decision to rank this initiative as a high priority. PG&E also generally supports the CAISO's decision to combine this initiative with the Day Ahead Scheduling of Intermittent Resources initiative and the DEC Floor initiative. However, the CAISO's description of this initiative remains vague and PG&E requests the CAISO provide a more detailed description of its plan and scope of this initiative.

Enhanced DEC Market: The CAISO's explanation of this initiative in the Market Design Initiatives Catalogue is brief and lacks sufficient details needed to properly evaluate and prioritize this initiative. As a result of the limited information provided in the Catalogue, PG&E's understanding of this initiative is based on the CAISO's Revised Straw Proposal for the DEC Bidding Activity Rule from April 14, 2008. Based on that proposal, PG&E assumes the CAISO is referring to a new mechanism whereby economic Energy Bids cleared in the IFM would be transferred to the HASP/RTM to be used as "default" decremental Energy Bids in cases when the Scheduling Coordinator does not explicitly submit a new decremental Energy Bid on its cleared Day Ahead Energy Schedule. PG&E requests the CAISO provide a more thorough explanation of the plan and scope for Enhanced DEC Market initiative.

Addressing Ramping Capacity Constraints: The CAISO has reclassified Addressing Ramping Capacity Constraints as a non-discretionary initiative. While this reclassification was briefly addressed during the stakeholder conference call on August 28, 2009 the CAISO did not provide much detail about the reasons for this change. In order to better understand this initiative as well as the CAISO's classification system PG&E requests the CAISO provide a more detailed explanation about its decision to change this from discretionary to non-discretionary. In addition, now that this is a non-discretionary initiative PG&E recommends that the CAISO provide a plan and schedule for its implementation.