

Comments of Pacific Gas and Electric Company on the CAISO's "Market Initiatives Roadmap Process Report on Ranking of High Priority Market Initiatives" Paper of June 4, 2008

Introduction

PG&E appreciates the opportunity to provide comments on the CAISO's paper, entitled "Market Initiatives Roadmap Process Report on Ranking of High Priority Market Initiatives." PG&E would like to stress the importance of prioritizing and planning future market enhancements to ensure that the CAISO and stakeholders focus their limited time and resources on the initiatives that have the highest value.

Recommendations Concerning Schedule

PG&E understands the substantial work associated with developing a work plan; however, considering the significant time required for developing the market enhancements, PG&E suggests the CAISO to publish a work plan earlier than fall 2008.

Recommendations Concerning Prioritization of Issues

PG&E supports the CAISO's ranking analysis and the following nine high-priority ranking enhancements:

- Standard RA Capacity Product
- Long Term CRR Auction including Multi Period Algorithm and Flexible Term Lengths
- Ancillary Services Substitution
- 30 Minute Operating Reserve
- Ability to Designate Ancillary Services Contingency Hourly
- Market Power Mitigation of Start-Up and Minimum Load Bids
- Sale of CRRs in the CRR Auction
- Model Constraints of Combined Cycle Units
- Multi-Settlement System for Ancillary Services

Regarding the ranking analysis, PG&E has the following comments:

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1. PG&E reiterates its strong support for the high ranking of the Standard RA Capacity Product enhancement and the Long-Term CRR Auction including Flexible Term Lengths. As it outlined in its initial comments of April 18, 2008, the CAISO's effort to define a standard RA Capacity Product is most beneficial to stakeholders if it is completed and filed with FERC by this winter. Securing a FERC ruling on a standard RA Capacity Product by February of next year will allow market participants to incorporate standard RA features into 2009 procurement activities. PG&E's proposed schedule is included as an exhibit to these comments. PG&E is concerned that the CAISO's proposal "aiming to provide an Issue Paper to stakeholders in July and hold an initial stakeholder meeting near the beginning of August" may not allow enough time for stakeholder deliberation before a final proposal is recommended for approval by the CAISO Board of Governors.
2. PG&E understands that the CAISO does not view "Strengthening General Market Power Provisions" as discretionary and will monitor and address market power issues continuously.

Over the first 12 months that MRTU is implemented, the Department of Market Monitoring (DMM) will be monitoring aspects of the overall Local Market Power Mitigation (LMPM) plan incorporated in the MRTU market design, and will identify other potential modifications that may be necessary or appropriate to ensure the overall effectiveness of LMPM. The CAISO and its Market Surveillance Committee (MSC) will specifically examine "whether an alternative competitive screen to identify market power opportunities for generation in load pockets should be considered." Findings of the CAISO and MSC's assessment of this issue will be included in the CAISO quarterly post-implementation performance reports. (See FERC's September 26, 2006 Order at ¶1032 p. 283.) Other potential modifications include provisions relating to default energy bids, startup and minimum load bids, and the amount of load use in LMPM runs (e.g. forecast vs. actual).

PG&E has not identified a specific market power problem that needs to be addressed at this time. That said, PG&E emphasizes the critical nature of this issue and encourages the CAISO to take a proactive rather than a reactive approach to market power issues. Lastly, PG&E's expectation is that the quarterly report referenced above will include a discussion and analysis of the effectiveness of active mitigation protections as well as the behavior of non-mitigated market

elements (e.g., A/S, RUC, DEC bids) and the possible need for new mitigation practices.

3. It is our understanding from the June 4th Report that the CAISO has committed to addressing the "Economic Methodology for Transmission Outages" outside of this ranking process. It is essential that the CAISO PG&E address this significant shortcoming in the initial design as soon as possible. PG&E recommends that the CAISO begin work on development of a tool for evaluating and processing transmission outage notification exemption requests by PTOs prior to initial implementation of MRTU. Even though some actual experience with CRR revenue adequacy under MRTU will be valuable in shaping a more elegant solution, it is not necessary in order for the CAISO begin work on an evaluation tool.
4. For the following reasons, PG&E supports the CAISO establishing a separate initiative and stakeholder process to address sub-regional A/S procurement and cost allocation: (1) there many unanswered questions surrounding sub-regional A/S procurement, (2) this topic is broader than the current forum in which it is being considered (i.e., Scarcity Pricing), and (3) the need for a tariff modification to change the cost allocation methodology. The CAISO has made it clear that it feels it has tariff authority to conduct sub-regional A/S procurement. What remains unclear is when this might commence, under what circumstances and how often this might occur, how sub-regional requirements are determined, the implications concerning market power, and whether additional mitigation processes might be needed.
5. The FERC mandate for a "Two-tier rather than a Single-tier R/T Bid Cost Recovery" should be included as a high priority item. It is our understanding this infrastructure is necessary in order to perform real-time uplift cost allocation to convergence bids which will be implemented as part of the Markets and Performance (MAP) initiative.

Conclusion

PG&E appreciates the CAISO's efforts to prioritized issues identified through development of the Five-Year Market Initiatives Catalogue.

PG&E looks forward to working with the CAISO and other stakeholders in establishing a workable and prioritized plan for addressing the highest value market initiatives. For follow-up or questions, please contact Kurt Hansen (415-973-2948) or Brian Hitson (415-973-7720).

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Exhibit A:
Proposed Schedule for Development of Standard RA Capacity Product
Originally submitted: April 18, 2008

Activity	Proposed Schedule
Briefing on Roadmap at CAISO Board meeting	N/A
Stakeholder process on Standard RA Capacity Product	May 15 -August 31
CAISO Circulates Proposal for Comment	May 15
Comments due	May 22
CAISO Board approves filing of tariff to FERC	September 8-9
CAISO tariff filing at FERC requesting approval of Standard RA Capacity Product	Mid-Late September
FERC process; FERC reviews CAISO tariff filing	September – February 2009
FERC approves CAISO tariff filing	February 2009