



Template for Submission of Comments on 5-Year Market Initiatives Roadmap

The CAISO is requesting that Stakeholders submit the following comments to the 5-Year Market Initiatives Roadmap using this stakeholder comments template.

1. Pick three market enhancements you believe should have the highest priority for implementation and describe the reasons why tied back to the high-level prioritization criteria using the provided tables below. These top three may include FERC mandated market enhancements or non-mandated market enhancements that are described in the Roadmap.
2. Prioritize the list of FERC mandated enhancements listed in the table below with a rank of 1-10 based on the order of priority you believe these enhancements should be addressed by the CAISO.

Comments are requested by close of business Friday, April 18, 2008 and should be submitted to mmiller@caiso.com. Please contact Margaret Miller at mmiller@caiso.com or 916 608-7028 with any questions.

Instructions for Part 1 – Ranking top three market enhancements

- 1) At the top of the template please provide your name and the name of the company you represent.
- 2) In the left-hand column identify the section number associated with the enhancement you want to propose, as identified in the Five Year Market Initiatives Roadmap. If you are proposing a new market enhancement that is not captured in the Roadmap please indicate "New" in the left-hand column.
- 3) In the second column provide the name of the enhancement and a description of the important features you are proposing.
- 4) In columns three through six provide justification for your proposed enhancement based on:
 - Grid Reliability-please rank high, medium or low and describe why.
 - Market Efficiency – please rank high, medium or low and describe why.
 - Implementation/cost impact to CAISO please estimate (High, Medium, or Low)
 - Implementation/cost impact to market participants please estimate (High, Medium, or Low)

In providing your justification for a proposed market enhancement it is extremely important to describe why you believe a market enhancement ranks high, medium or low in the specified category. The CAISO will use this information when evaluating these market enhancements in the ranking process.

Company represented: Pacific Gas and Electric Company Person submitting comments: Brian Hitson

Date of submission: April 18, 2008

Part 1 – Top Three Market Enhancements (Mandated or Non-Mandated)

Roadmap section number, or specify "New"	Title and description of proposed enhancement	Does this market enhancement have a High, Medium or Low impact on improving Grid Reliability and why?	Does this market enhancement have a High, Medium or Low effect on improving market efficiency and why?	Estimated Implementation /Cost Impact to CAISO Please specify (High, Medium or Low)	Estimated Implementation/Cost Impact to Market Participants Please specify (High, Medium or Low)
3.2.7	Standard RA Capacity Product	High	High	Medium	Medium

As noted in the letter to the CAISO Board of Governors on March 26, 2008, market participants want, and need, the CAISO to address the development of a standardized capacity product in their tariffs as a high priority item. Development of standardized RA terms in the tariffs would, as the parties¹ to that document noted:

.. provide immediate benefits to all concerned: clarifying resource obligations to the CAISO and thus enhancing reliability; reducing administrative costs and burdens to the CAISO, California Public Utilities Commission (CPUC), and other agencies; and enabling more cost-effective satisfaction of RA goals by every facet of the market... .

¹ Representatives from the Alliance for Retail Energy Markets, California Manufacturers & Technology Association, California Large Energy Consumers Association, Constellation Energy Commodities Group and Constellation NewEnergy, Coral Power, L.L.C., Division of Ratepayer Advocates California Public Utilities Commission, Energy Users Forum, J. Aron & Company, Mirant California, Pacific Gas and Electric Company, The Utility Reform Network, and the Western Power Trading Forum all endorsed the document.

PG&E asks that the CAISO utilize the time that is now available for a focused stakeholder process on Standardized RA, while further consideration of the future form of the RA program is ongoing at the CPUC. The CAISO's master stakeholder engagement plan² provides for an initiative, starting in mid-May, for consideration of a "Centralized Capacity Markets Pricing Mechanism". Whether the CPUC will ultimately adopted a centralized or bilateral design remains undetermined. What is clear, however, is that no matter what design is adopted, many, if not all, of the issues involved in standardized RA would be helpful regardless of the form that RA may take, and that constructive engagement on this topic will yield concrete and immediate benefits. The CAISO can, and should, now reallocate its resources to focus on standard RA contract terms in its tariffs, benefiting parties now and in the future, and whatever future capacity paradigm the Commission adopts.

PG&E envisions the stakeholder process will require some meetings, but less than most initiatives due to the considerable work that has already been accomplished to date. Work to develop a robust strawperson proposal³ has already been completed by market participants, including draft tariff language, which were the product of industry-led workshops, in which the CAISO participated in part. Therefore, the effort needed for CAISO and stakeholders to further develop the proposal and strawman, and to engage in a further stakeholder process, would certainly be significantly less than the process CAISO had scheduled for this time period to address "Centralized Capacity Markets Pricing Mechanisms." In addition, the stakeholder process need not, and should not, be viewed as an opportunity by parties to circumvent the CPUC's jurisdictional authority. To the extent parties wish to modify the RA obligation or reinvent the rules that have been subject to significant debate and reasoned conclusions, the CAISO should refuse such notions, which will facilitate a targeted process to implement current RA rules.

PG&E recommends that the CAISO, in launching its stakeholder process, circulate the existing strawperson and request identification of needed topics and priorities for discussion at the first stakeholder meeting in May. That May stakeholder meeting

² <http://www.caiso.com/1fa4/1fa4ee2c9750.pdf>

³ Footnote Calpine proposal & signatories

could also prioritize remaining topics and outline a calendar for approval of the tariffs by FERC. PG&E believes approval by FERC in early 2009 can be accomplished under this reasonable schedule, but only if the CAISO acts now.

Therefore, PG&E proposes the following schedule:

Activity	Proposed Schedule	Alternative Schedule (If CAISO takes action on Std. RA product only after roadmap process)
Briefing on Roadmap at CAISO Board meeting	N/A	July 9-10
Stakeholder process on Standard RA Capacity Product	May 15 -August 31	Late July-late Oct
CAISO Circulates Proposal for Comment	May 15	July 18
Comments due	May 22	July 31
CAISO Board approves filing of tariff to FERC	September 8-9	Oct 28-29
CAISO tariff filing at FERC requesting approval of Standard RA Capacity Product	Mid-Late September	Early to mid-Nov
FERC process; FERC reviews CAISO tariff filing	September – February 2009	Nov to April, 2009
FERC approves CAISO tariff filing	February 2009	April, 2009

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2.8.8	Long Term CRR Auction	High LT-CRRs support long-term contracting of supply. Long-term contracting of supply enhances reliability.	High Allocates LT-CRRs to those who value them the most.	Medium	Medium

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2.2.3.26	Strengthening General Market Power Provisions	Medium	High Lack of mitigation of market power results in excessively high costs to consumers and inefficient markets.	Medium	Medium

PG&E requests that the CAISO include the topic identified as 2.2.3.36, Expedited Reporting of SC Bidding, as a component of issue 2.2.3.26. Issue, 2.2.3.36, was included with the CAISO's April 15, 2008 version of the Five-year Market Initiative Roadmap and is an important element in strengthening general market power provisions.

PG&E has identified the following three additional roadmap issues as having secondary priority with respect to PG&E's top three because they have significant benefits in reducing costs to consumers and improving market efficiency.

- 2.5.5 Regional A/S Procurement, Scarcity Pricing and Cost Allocation
- 2.2.3.30 Economic Methodology For Transmission Outages
- 2.8.7 Flexible Term Lengths of Long-Term CRRs

Instructions for Part 2 – Ranking FERC Mandated Market Enhancements

1. In the left hand column enter a rank for the specified FERC mandated market enhancement in order of priority for implementation by indicating a 1 for highest priority to an 10 for lowest priority. If you believe that more than one market enhancement should have the same level of priority you may use the same ranking number up to two times. For example you may rank up to two market enhancements as a “1”.
2. In column two please describe the reason for your selected rank unless the same market enhancement was already described in detail in Step 1 above.

The CAISO has been ordered by FERC to implement or address the following market enhancements no later than three years after MRTU start-up⁴.

Rank (1-10)	FERC Mandated Market Enhancement	Please describe reason for rank
5	Multi Hour Block Constraint in RUC – 2.2.2.2	The CAISO may commit a resource in RUC for a time period that is inconsistent with the SC's offer for the resource. This change seems useful but not critical.
7	Ancillary Services Substitution -2.2.3.7	May add nominal A/S flexibility, but impact is questionable.
10	Rebate of loss-over collection issues for Renewable Resources – 2.2.2.3	No special loss treatment is needed for intermittent resources.
3	Bid Cost Recovery for Units with Run Times that Exceed 24 Hours - 2.2.2.9	Potential to reduce uplift charges to market participants.
7	Support Exports of Ancillary Services – 2.2.2.13	Not a critical issue for most LSEs.
2	Model Constraints of Combined Cycle Units – 2.2.2.16	This could have a significant impact on the optimization.
10	Increase number of LAP Zones – 2.2.2.20	Support gaining experience with new MRTU before initiation of such a change.
1	Two Tier rather than single tier Real-Time Bid Cost Recovery – 2.2.2.23	Important for correct cost allocation and to support convergence bidding.

⁴ The CAISO is ordered by FERC to allow for flexibility for A/S substitution in a “future MRTU Release”. No specific timeline was specified.

1	Long-Term CRR Auction – 2.8.8	Provides important additional flexibility for the LT CRR process.
5	Sale of CRRs in the CRR Auction 2.8.3	Provides easier method for selling a CRR, although the purchase of a counterflow CRR is a work-around.