



Comments of Pacific Gas and Electric Company

2012 Stakeholder Initiatives Catalog

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Pacific Gas & Electric (PG&E) appreciates the opportunity to participate in the evaluation of the California Independent System Operator's (CAISO) draft Stakeholder Initiatives Catalog ("Catalog").

Introduction

PG&E understands this evaluation of the Catalog as a two-step process. First, stakeholders are to evaluate the completeness of the list of initiatives and suggest additions or deletions for initiatives that are no longer applicable. Stakeholders can also comment on the categorization of the initiatives. The output of this first step will be an updated compilation of initiatives which the CAISO will post on October 17. In the second step, due October 31, stakeholders will be asked to rank the updated list of initiatives.

Overall, PG&E suggests the addition of the four initiatives which are discussed below:

1. Mitigating Transient Price Spikes, Real-Time Imbalance Energy Offset (RTIEO) / Real-Time Congestion Offset (RTCO)
2. Standard Capacity Product (SCP) – Seasonally Adjusted Non-Availability Charges
3. Readiness Plan for the Greenhouse Gas (GHG) Carbon Market
4. Mitigation Rules for Convergence Bidding Activities

PG&E also includes several comments/requests about some of the initiatives at the end of the comments.

Regarding the Catalog and prioritization process, PG&E has two process recommendations.

1. The Catalog and Prioritization Process should be Performed Each Year

PG&E recommends that the CAISO commit to an initiative prioritization and planning process each year. Going through this process annually will provide a routine opportunity to refresh the list of possible initiatives reflecting market and regulatory changes and add important discipline to the CAISO initiative planning process. It will also provide greater transparency for stakeholders, and, if done well, should reduce the number of unanticipated initiatives.

As part of this annual process, the CAISO should include all initiatives that may result in tariff or BPM changes, including initiatives that start as Technical Bulletins (e.g., Flexible Ramping Constraint) and initiatives included in the CAISO's Master Stakeholder Engagement Plan (e.g., Credit Policy Enhancements is in the Plan but not the Catalog). The Catalog will provide a central repository of initiatives to assist stakeholders in tracking initiative progress and disposition.

PG&E understands there are circumstances which may require initiatives to be started without having been considered through the annual Catalog and prioritization process, but our expectation is this should be a relatively rare occurrence.

2. The Initial Prioritization Screening Process should be Streamlined

As outlined in the Catalog, step one of the current initiatives ranking process involves a high level prioritization of all initiatives. In this step, stakeholders are to provide grades on five criteria for the 30-plus discretionary initiatives. Providing detail grades for all of the discretionary initiatives seems inefficient. PG&E asks the CAISO to consider simplifying this initial screen of the initiatives. For example, stakeholders could provide a list of the top five or ten initiatives for that organization. From this input the CAISO could do an initial screen and generate a shorter list of initiatives for which stakeholders would provide the more detail grading.

Initiatives to Add to Catalog**1. Mitigating Transient Price Spikes, Real-Time Imbalance Energy Offset (RTIEO) / Real-Time Congestion Offset (RTCO)**

Market volatility has increased significantly in the real-time market, which can drastically increase RTIEO and RTCO costs. Of particular concern are price spikes which occur in one or two real-time intervals resulting from modeling imperfections and for which no action is taken by operators in response. These pricing aberrations increase cost without appearing to serve a market efficiency purpose. This initiative would develop effective near, and midterm, solutions to mitigate these situations.

2. Standard Capacity Product (SCP) – Monthly Adjusted Non-Availability Charges

In the current formula for calculating SCP non-availability charges, the same penalty cost is used across all months. Specifically, the non-availability charge rate is set at the Monthly CPM Capacity Payment price, which is calculated by multiplying the annual CPM Capacity Payment price by a uniform monthly shaping factor of $1/12$ ¹.

Given the reliability impact of forced outages varies significantly by month, the penalties and payments should reflect the true market value of availability resulting in more reasonable price signals to participants. This initiative would develop monthly charge adjustment factors reflecting the relative value of availability to the CAISO that would be used to calculate different monthly SCP rates.

3. Readiness Plan for the Greenhouse Gas (GHG) Carbon Market

Assembly Bill 32 (AB32)'s Cap-and-Trade program launches on January 1, 2013, and will impact the CAISO electricity market directly as generation facilities fall into the category of resources that will be monitored and covered in this new carbon market. Since these two markets will be linked, actions in one market may influence the pricing of products in the other, and the potential for market manipulation exists. Of particular concern are potential seams issues at the interties and issues related to resource shuffling.

To address these potential GHG issues, this initiative would establish measures for monitoring the interaction between these two markets, identify triggers for the CAISO to take additional action, and specify administrative actions to enact if the action thresholds are met.

4. Mitigation Rules for Convergence Bidding Activities

Convergence bidding was implemented to assist in price convergence between the day-ahead market and real time market. However, since its implementation, we have seen gaming behavior and unintended market results including unexpected high RTIEO uplifts. As part of its effort to address with these problems, the CAISO suspended convergence bidding activities at the interties. Given the history of market impacts of convergence bidding, it is worthwhile to examine the impacts and cost of convergence bidding in the CAISO.

This initiative would examine the impacts and costs of convergence bidding to the CAISO market and determine if further monitoring or action is warranted including additional monitoring, identification of triggers for the CAISO to take additional action, and administrative actions to enact if the action thresholds are met.

Clarifications for Existing Initiatives

1. Initiative 3.5 –Decremental Bidding from PIRP Resources

¹ See CAISO Tariff, Schedule 6 of Appendix F

This initiative is currently being addressed within the scope of the Flexible Ramping Product, in which detailed bidding rules have already been developed. PG&E recommends updating the description of this initiative to reflect the most recent policy development.

2. Initiative 11.1 – Administrative Pricing Rule

Since the 7/25/2012 issue paper and the stakeholder conference call on 8/1, there have not been any updates on this initiative. PG&E recommends the CAISO provide a status of this initiative in the Catalog.