

## **Comments of Pacific Gas and Electric Company**

### **2012 Final Rankings of Discretionary Market Design Initiatives**

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Pacific Gas & Electric (PG&E) appreciates the opportunity to participate in the evaluation of the Final Rankings of Discretionary Market Design Initiatives of the CAISO. We also look forward to working with the CAISO on the 2013 Stakeholder Initiatives Catalog next year.

Overall, PG&E supports the CAISO's prioritization of the top five 2012 discretionary initiatives. Given the many high priority CAISO initiatives that are already in progress and which will continue to require many resources in 2013 ("Ongoing Key Initiatives"<sup>1</sup>), PG&E recommends the CAISO establish a modest agenda for new initiatives in 2013. To help in setting that agenda, the CAISO should prioritize the top five initiatives and PG&E provides input on prioritization in these comments.

PG&E is supportive of proceeding with work that is incremental, not largely impacted by other pending initiatives or that is already well underway. This includes the two initiatives:

- Mitigating Transient Price Spikes, Real-Time Imbalance Energy Offset (RTIEO) / Real-Time Congestion Offset (RTCO) (#1 Initiative)
- Multi-year Forward Reliability Capacity Pricing Mechanism (#3 Initiative)

PG&E is not supportive of starting new large scale initiatives that appear to address issues targeted by other initiatives on which the CAISO and stakeholders are currently working. These initiatives should not be started until the large-scale market modifications on which we are currently working are implemented and we understand the steady-state impacts of these changes.

The CAISO should defer work on these two initiatives:

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<sup>1</sup> Examples of key Ongoing Key Initiatives are FERC Order 764, Flexible Ramping Product, and Pay for Performance.

- Additional Constraints, Processes, or Products to Address Exceptional Dispatch (#2 Initiative)
- Extended Pricing Mechanisms (#5 Initiative)

Additional comments are provided below, including PG&E's recommendation on Use-limited Resource Adequacy Criteria, Must Offer Obligation and Standard Capacity Product Enhancements (#4 Initiative).

### **Comments on Top Prioritized Initiatives**

#### **1. Immediately Address Critical Initiatives**

- **Mitigating Transient Price Spikes, Real-Time Imbalance Energy Offset (RTIEO) / Real-Time Congestion Offset (RTCO) (#1 Initiative)**

We support the CAISO's ranking for the initiative and its approach for making incremental changes through this initiative to address the market performance issues. This should be a priority for the CAISO. PG&E supports the CAISO making modest near-term changes to the market while it also pursues longer-term reforms that could help address the price spikes.

- **Multi-year Forward Reliability Capacity Pricing Mechanism (#3 Initiative)**

PG&E supports this as a top 2013 priority on which the CAISO should actively be working. The need for this initiative is universally supported by stakeholders as a key market modification. Moreover, this really isn't a new initiative as it is related to the Flexible Capacity Procurement discussion, which the CAISO and stakeholders have been actively working on through most of 2012.

#### **2. Defer Initiatives Impacted by Other Ongoing Market Design Projects**

- **Additional Constraints, Processes, or Products to Address Exceptional Dispatch (#2 Initiative)**
- **Extended Pricing Mechanisms (#5 Initiative)**

We need to let the dust settle before taking on these two complex initiatives, both will demand significant resources and time from the ISO and its stakeholders. The implementation of initiatives such as FERC Order 764, Flexible Ramping Product, and Pay for Performance will have huge impact in the ISO markets. We must fully examine and understand these market changes first, as they will likely alter today's perceived needs and benefits of the two proposed initiatives on Exceptional Dispatch and Extended Pricing Mechanisms.

### 3. Other Comments

- **Use-limited Resource Adequacy Criteria, Must Offer Obligation and Standard Capacity Product Enhancements (#4 Initiative)**

During the November 27 stakeholder call, the CAISO indicated that the Standard Capacity Product Enhancements initiative suggested by PG&E and SCE will be combined with the above initiative<sup>2</sup>. PG&E supports the Standard Capacity Enhancements part of this initiative. PG&E recognizes the need to establish Resource Adequacy (RA) rules for all resources, but we believe this discussion should originate at the Local Regulatory Authority.

When the timing is appropriate to begin the Use-Limited RA rules and obligations discussion at the CAISO, PG&E asks the CAISO to work closely with stakeholders – especially those experienced in operating these resources – to make sure any market solutions coming out of this initiative will support reliability requirements, operate with the existing constraints, and are also cost effective for the end customer.

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<sup>2</sup> <http://www.caiso.com/Documents/Presentation-StakeholderInitiativesCatalogProcess-Nov27-2012.pdf> (page 5)