

Decision 11-06-004 June 9, 2011

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans.

Rulemaking 10-05-006  
(Filed May 6, 2010)

**DECISION GRANTING PACIFIC GAS AND ELECTRIC COMPANY'S  
PETITION FOR MODIFICATION OF DECISION 10-12-034**

**1. Summary**

In Decision (D.) 10-12-034, this Commission authorized Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company, and Southern California Edison to participate in convergence bidding in markets operated by the California Independent System Operator.<sup>1</sup> PG&E has filed a Petition for Modification of that decision, requesting clarification on two issues. We grant PG&E's Petition and clarify D.10-12-034.

**2. Background**

In Decision (D.) 10-12-034, we granted the utilities interim authority to participate in convergence bidding in California Independent System Operator (CAISO) markets, under three uniform authorized bidding strategies, applicable to all utilities. These uniform rules are intended to provide broad consistency among the utilities, but each utility will also have discretion to allocate bidding activities among the three available bidding strategies.

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<sup>1</sup> Convergence or virtual bidding is designed to help bring day-ahead and real-time prices closer together.

As set forth in D.10-12-034, the first convergence bidding strategy allows utilities to use convergence bids to hedge risks associated with generation outage and load uncertainty. The second convergence bidding strategy allows utilities to use convergence bids to hedge against uncertainty regarding renewable generation scheduling. The third category allows the utilities to guard against market manipulation that can impact wholesale electricity prices. These three strategies are intended to allow the utilities to take measures to benefit ratepayers by mitigating market price volatility and market manipulation, and improving the pricing of renewable resources in the CAISO's day-ahead market.

PG&E's Petition for Modification requests clarification of two issues; one, that the first strategy allows for the submission of convergence bids related to certain long-start generation units, and two, that all three strategies allow for bids to be submitted at interties as well as at nodes or locations where utility resources or loads are located.

Southern California Edison Company (SCE) filed a response in support of PG&E's Petition for Modification. The Commission's Division of Ratepayer Advocates (DRA) also filed a response, noting that it was not sure the Petition for Modification was necessary, but DRA did not oppose it. DRA also provided alternate language to that proposed by PG&E.

### **3. Discussion**

On the first issue, specifically that the first strategy should allow for the submission of convergence bids related to certain long-start generation units, PG&E notes that limitations in the CAISO's market software, coupled with the CAISO's rules regarding minimum down times for thermal units in the Integrated Forward Market (IFM), may result in market inefficiencies and added costs. As PG&E describes it:

Thus, a thermal unit that has a long-start time may be instructed to shutdown at the end of the day and because of the CAISO's rules regarding minimum downtimes, may not be able to bid into the next day's IFM, even when the resource may have elected to remain online and is available in Real-Time. When long-start thermal resources are not represented in the optimization because of the required minimum downtime, they are generally replaced by higher priced resources, thus increasing costs for customers. (PG&E Petition for Modification at 3.)

PG&E argues that its proposed modification will help resolve this issue:

Through virtual supply bids in the convergence bidding markets, the IOUs [investor-owned utilities] can sell energy virtually in the IFM to more accurately represent the availability of long-start resources that remains online, and as such, improve market efficiencies. (Id.)

PG&E notes that it raised this issue in the course of the proceeding, and no party opposed its proposal. (Id. at 4.) SCE supports PG&E's request on this issue, and DRA does not oppose it. (SCE Response at 2; DRA Response at 2.)

PG&E's request makes sense, is supported by the record in this proceeding, and is unopposed. Accordingly, we will grant the clarification requested by PG&E on this issue.

On the second issue, that all three strategies should allow for bids to be submitted at interties as well as at nodes or locations where utility resources or loads are located, PG&E argues:

In the Decision, the Commission included restrictions in Section 6 on the locations where the IOUs are authorized to submit convergence bids, specifically at the nodes or locations where the IOU-owned or IOU-contracted resources or load are physically located. However, IOU portfolio positions may include resources (or obligations) external to the CAISO Balancing Area ("BA") that could create market risks similar to those faced by in-area resources (or obligations). The Decision authorized specific convergence bidding strategies to help manage these risks for in-area resources and loads.

There would be added hedging benefits if the authority for approved bidding locations were extended to include Interties for applicable IOU import and export locations. (PG&E Petition for Modification, pp. 4-5.)

In response, SCE states: “SCE understands that the Decision already authorizes convergence bids at interties under all three strategies as SCE’s imports are physically delivered to CAISO interties.” (SCE Response at 2-3.) SCE also supports PG&E’s request to make this authority clearer. (Id. at 3.)

Similarly, DRA states: “DRA agrees in principle with the request for such authority but believes that it is probably already within the scope of the authority granted by the Decision ...” (DRA Response at 2.)

Again, PG&E’s request makes sense. There is no practical reason nor anything in the record of this proceeding which would support treating interties differently than nodes at which utility load or resources are located. While DRA agrees with the substance of PG&E’s request, DRA proposed different language than did PG&E. (DRA Response at 3.) We prefer DRA’s characterization, that interties where utility load or resources are located are a subset of the nodes and locations at which we have already authorized the utilities to participate in convergence bidding. We will grant the clarification requested by PG&E, as described by DRA.

Because this decision serves to clarify D.10-12-034 rather than change its substance, we will not change the language of that decision.

#### **4. Comments on Proposed Decision**

The proposed decision of Administrative Law Judge (ALJ) Allen in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission’s

Rules of Practice and Procedure. Comments were received from PG&E and SCE supporting the proposed decision.

## **5. Assignment of Proceeding**

Michael R. Peevey is the assigned Commissioner and Peter V. Allen is the assigned ALJ in this proceeding.

### **Findings of Fact**

1. D.10-12-034 authorized PG&E, SDG&E, and SCE to participate in convergence bidding in markets operated by the CAISO.
2. PG&E's Petition for Modification of D.10-12-034 requests clarification of two issues; first, that one of the Commission-approved strategies allows for the submission of convergence bids related to certain long-start generation units; and second, that all three approved strategies allow for bids to be submitted at interties as well as at nodes or locations where utility resources or loads are located.
3. Other parties either support or do not oppose the proposed clarification.

### **Conclusions of Law**

1. PG&E's Petition for Modification of D.10-12-034 is supported by the record of the proceeding.
2. The relief requested by PG&E's Petition for Modification of D.10-12-034 is consistent with the policies and procedures adopted in D.10-12-034.
3. The modified wording proposed by the DRA is more consistent with D.10-12-034.

**O R D E R**

**IT IS ORDERED** that:

1. Pacific Gas & Electric's Petition for Modification of Decision (D.) 10-12-034 is granted as follows. D.10-12-034 is clarified as follows:

- a) The first convergence bidding strategy allows for the submission of convergence bids related to long-start generation units; and
- b) All three convergence bidding strategies allow for bids to be submitted at interties where utility resources or loads are located, as well as at the previously authorized nodes or locations.

2. Rulemaking 10-05-006 remains open.

This order is effective today.

Dated June 9, 2011, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
TIMOTHY ALAN SIMON  
CATHERINE J.K. SANDOVAL  
MARK J. FERRON  
Commissioners

I abstain.

/s/ MICHEL PETER FLORIO  
Commissioner