

December 19, 2006

**Comments of Pacific Gas and Electric Company
On Real-Time LAP Price Computation Revised Whitepaper of
December 6, 2006**

PG&E provides these supplemental comments in response to the revised "Proposed Modification to the MRTU Real-Time LAP Price Computation" white paper issued by the CAISO on December 6, 2006.

The major elements of the proposal with respect to changes to the computation of real-time LAP prices remain unchanged. However as a revision to what was originally proposed in the October 26, 2006 CAISO Whitepaper, the CAISO has now proposed two alternatives for the allocation of neutrality costs resulting from the changes in the Load Aggregation Point (LAP) Load Distribution Factors (LDF) between day-ahead and real-time. One alternative would allocate neutrality costs to all real-time CAISO metered load, the other alternative would allocate neutrality costs to CAISO internal loads cleared in the day-ahead market.

PG&E continues to support the CAISO proposed revisions to the methodology to calculate real-time LAP prices (please refer to PG&E Comments submitted November 15, 2006). With respect to LDF neutrality uplift cost allocation, PG&E also continues to generally support the alternative as first proposed by the CAISO, specifically that these costs would be allocated to real-time metered CAISO load. However as indicated in PG&E's previous comments, neutrality costs should be allocated to both metered loads plus exports (ie. Measure Demand) and may also appropriately include some aspects of virtual bids (VB) as this area of market design develops.

The alternative to allocate the LDF neutrality cost to day-ahead loads is not supported by PG&E. It is expected that the LDF related re-dispatches will result in the allocation of net costs, not net credits; the allocation of the LDF neutrality costs to loads cleared in the day-ahead market would be inappropriate as it would create a disincentive to schedule load in the day-ahead market.

PG&E recommends that the CAISO continue with the proposal to revise the methodology of real-time LAP computation and cost allocation to metered load, provided that the CAISO approach is modified such that all categories of demand are equitably assessed the uplift costs. PG&E looks forward to working with the CAISO and other stakeholders in finalizing this proposal. For follow-up or questions, please contact Brian Hitson (415-973-7720) or Glenn Goldbeck (415-973-3235).