

**Comments of Pacific Gas and Electric Company
On the ‘CRR Issues Paper Covering Topics to be Filed in July 2007’**

PG&E provides these comments in response to a request by the CAISO for market participant input and direction on the CAISO ‘CRR Issues Paper Covering Topics to be Filed in July 2007’ issued May 18, 2007.

As background, since February the CAISO has undertaken a number of revisions to the MRTU CRR designs; during May a tariff filing was made to address CRR nominations at Hubs and other issues, and in early June it is expected that an additional tariff filing will be made to address CRR credit issues. One further set of CRR design details still require resolution and are the topics of this latest CAISO Issues paper.

The CASIO staff has specifically requested stakeholder comments and guidance on the following issues:

- 1) Rules and Procedures for Transferring CRRs to Reflect Load Migration between LSEs
- 2) Process to Ensure Consistency of Load Forecasts for Monthly CRR Eligibility and Monthly Resource Adequacy Requirements
- 3) Procedures for Modeling Transmission Outages for the Monthly CRR Allocation and Auction process
- 4) Provisions for Early Release of Transmission Encumbrances Associated with Converted Rights (CVR)

PG&E provides the following *preliminary* recommendations to the CAISO; please note however that additional implementation details and further stakeholder discussions are needed in order for PG&E to provide a more complete assessment and recommendations to the CAISO. Added comments will be provided on June 20, 2007 after the complete CAISO straw proposal is issued June 7, 2007 and a comprehensive stakeholder review is held June 14, 2007.

1. Rules and Procedures for Transferring CRRs to Reflect Load Migration between LSEs

LT CRR Reassignment

In principle, PG&E continues to object the pro-rata approach for re-assignment of LT-CRRs; verifiable and on-going supply arrangements that continue to be required by the existing LT-CRR holder should not be subject to an automatic reassignment. Migrating load will ultimately be served by

supply resources other than those resources or supply arrangements that are retained by the existing LSE; there should be no need to transfer the LT-CRRs associated with these retained resources.

PG&E supports the alternative proposal as outlined in the latest Issues paper; load losing entities would be able to retain those LT CRRs that are still needed but in-turn would be required to make up the difference (MWs, not value) with the transfer of additional annual CRRs. The designation of 'Ineligible' LT CRRs would assure that not all LT CRRs would be subject to reassignment. To the extent an LSE does not transfer Ineligible LT CRRs, a commensurate increase in the amount of annual (seasonal) CRRs would be re-assigned on a pro rata basis as currently provided in the FERC accepted CAISO MRTU CRR Tariffs.

To best address the fairness associated with the loss of still-needed annual CRRs (due to the pro rata annual CRR reassignment), the current CRR rules establishing that CRRs received through load migration reallocations are ineligible for nomination in the Priority Nomination process (Tier 1) must be retained. Load losing and load gaining LSEs as such would remain on equal footing to seek new CRRs to replace the re-assigned CRRs.

Financial Equivalent

PG&E supports the alternative to provide a financial equivalent as an alternative to the reassignment of CRRs; however the financial equivalents must be defined as the (ex-post) revenue stream associated with the applicable CRRs. The financial equivalent option would effectively be an instruction to CAISO settlements to re-direct CRR payments to the acquiring LSE. The consideration of a 'one-time' up front payment should be rejected; such as option is not necessary and would be subject to disputes since the future value of the CRRs would be highly speculative.

The CAISO will need to develop additional design details to clearly establish if the financial equivalent alternative is optional or required due to the unilateral preferences of one party, if mixed or partial implementation is allowed (some CRR transferred, some CRR treated as financial equivalents) and the process for dispute resolution.

CAISO Tracking and Data Management

The CAISO should have a management role in the tracking and enforcement of load migration and CRR re-assignments. Relying on LSEs to perform the required calculations and transfers would likely result in disputes. PG&E supports the CAISO commitment to take on the role of executing the required CRR transfers for load migration.

It is important for PG&E and other stakeholders to better understand many of the implementation details, implications and alternatives; based on a preliminary review, it seems practical and reasonable for CRR reallocations to be based on customer class averages, to the extent these averages are statistically meaningful. It may be necessary to further subdivide 'commercial' customers due to significant load factor deviations, and possibly approach 'industrial' customers on a case-by-case basis. The necessary supporting information (such as number of customers per class, peak loads for each customer class by relevant time periods) could be supplied by the CPUC, or possibly by the Utility Distribution Company (UDC), subject to data availability by individual LSE and UDC cost recovery.

2) Process to Ensure Consistency of Load Forecasts for Monthly CRR Eligibility and Monthly Resource Adequacy Requirements

PG&E supports the development of protocols that might align and simplify the current LSE filings of load forecast for monthly RA demonstration and monthly CRR nomination purposes. However, the current load submittals for RA purposes (single monthly value adjusted for coincident peak) are quite different than what is required for the CRR nomination process (8760/730 hourly load values). It appears that without changing one process or the other, a direct comparison and possible adjustments would not be possible or appropriate. PG&E does not recommend changing the RA or CRR load data protocols at this point; many other more pressing issues deserve the focus of the CAISO and stakeholders. The CAISO should rely upon LSE affidavits and audit rights to best assure accurate and fair load actuals and forecasts. The CAISO may want to qualitatively assess the RA and CRR load data to initiate discussions with the applicable LSEs; however such simplistic comparisons of significantly different data should not result in direct CRR eligibility adjustments by the CAISO.

3) Procedures for Modeling Transmission Outages for the Monthly CRR Allocation and Auction process

The recognized need for CRR revenue adequacy should not be allowed to inappropriately drive transmission maintenance practices of the PTOs. The CAISO should defer to the recommendations of the Transmission Maintenance Coordination Committee (TMCC) with respect to the designation of 'significant outages' requiring 30 day advance notification and with the specific procedures on how outages should be modeled and incorporated into the annual and monthly CRR process.

Outages not otherwise designated and treated as ‘significant outages’ that may still have an effect on CRR revenue adequacy should be transparently and cautiously treated by the CAISO. The primary consideration should be CRR revenue adequacy; outages that do not affect CRR revenue adequacy could possibly be largely ignored. However any adjustments nominally to reflect outages should be limited to the true affects of the outages; it is important that actual monthly network derates for ‘unplanned outages’ should not otherwise be used to address unrelated problems or as a catch-all for the CAISO to assure CRR revenue adequacy.

4) Provisions for Early Release of Transmission Encumbrances Associated with Converted Rights (CVR)

The CAISO has proposed to offer Converted Rights Holders (CVR) an opportunity to exchange the ‘perfect hedge’ treatment under MRTU for obligation CRRs. Furthermore, CVRs exchanged for CRRs would be eligible for LT-CRR nominations in Year 1 and that such exchanged CRRs would be eligible for reassignment or ‘reclaim’ of CRR sources in Year 2.

PG&E does not fully appreciate the details of this proposal; however on the surface it appears to provide undue preferential treatment to CVR holders. The conversion of a ‘perfect hedge’ that exposes the CVR holder to no congestion risk in exchange for an obligation CRR appears to be motivated by the opportunity to obtain positive CRR revenues (that are not available from the CVR ‘perfect hedge’) along with the possible added benefit from an early nomination as LT CRRs. PG&E does not object to the CAISO allowing this conversion, this is a benefit and possible risk for the CVR holder; however there appears no reasonable basis to allow the CVR parties to exchange or otherwise ‘reclaim’ new CRR sources in Year 2 as part of the Priority Nomination Process (Tier 1). The CRR source selection process for all LSEs should be fairly and equally applied. Many LSEs may wish to select new and different CRR sources in Year 2, and the CAISO has provided a process to do this (Tier 2 and 3); CVR holders should not be allowed to preferentially reconfigure Tier 1 CRR nominations at the possible direct expense of other LSEs.

As PG&E and the CAISO is aware, these issues must be further developed and resolved fairly very quickly in order to support a August 2007 FERC filing. PG&E looks forward to working with the CAISO and other stakeholders in completing the required rule changes and in developing the additional design details in the coming month. For follow-up or questions, please contact Brian Hitson (415-973-7720) or Glenn Goldbeck (415-973-3235).