

Stakeholder Comments Template

Subject: Payment Acceleration Straw Proposal

| Submitted by | Company | Date Submitted |
|---------------------------------------|---|--------------------------|
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This template has been created for submission of stakeholder comments on the following topics in regards to Payment Acceleration. Upon completion of this template please submit (in MS Word) to pacceleration@caiso.com. Submissions are requested by close of business on Thursday, November 13th, 2008.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. Settlement Timeline

Which of the following two options do you prefer for publication of Settlement statements?

| | Timeline |
|-----------|--|
| Option #1 | T+7B - Initial T+38B - 1 st true-up T+76B - 2 nd true-up T+18M - 3 rd true-up T+35M - 4 th true-up |
| Option #2 | T+7B - Initial T+38B - 1 st true-up T+51B - 2 nd true-up T+18M - 3 rd true-up T+35M - 4 th true-up |

Please provide comments on these options:

From an accounting standpoint, PG&E would prefer Option #2. This solution is consistent with MRTU statement timing, keeps the 2nd true-up closer to the actual trade month and is similar to the current process. Going to T+76B would add another month into the timeline before market participants received the 2nd true-up for booking financials.

2. Interest Payments

Do you support CAISO's proposal of applying interest on deviations between the Initial and first true-up statements?

PG&E supports the payment of interest between deviations in the initial and first true-up invoices. However, depending on the invoicing structure this would have to be applied consistently. For example, using the APM Sample Payment Calendar on the CAISO website at <http://www.caiso.com/207c/207cbaf345620.pdf>, initial invoices are split on a bi-monthly basis between days 1 to 15 and then 2 weeks later for days 16 to 30. The first true-up invoice, if generated on a monthly basis, would need to apply interest charges between the first initial invoice and the first 15 days of the first true-up invoice. Likewise the second interest calculation would be between the second initial invoice and days 16 to 30 of the first true-up invoice.

Do you prefer applying interest to subsequent true-ups?

PG&E supports applying interest to subsequent true-ups but only if consideration is given to a dollar threshold to merit such an exercise. There otherwise exists the potential for the inefficient use of human resources being allocated to reconcile and track immaterial amounts of interest. PG&E would also support the use of a Commercial Paper rate and not a FERC Interest rate because the CP rate is more in line with what it costs a company on a daily basis to finance its short term working capital needs.

3. Invoicing

Please provide detailed examples of your preferred invoicing solution.

PG&E is very concerned about creating an invoicing solution which increases either the number of invoices or the number of days when invoices are actually received in a given trade month to an unreasonable and unmanageable level. Consequently, PG&E does not support a weekly frequency for either initial or true-up invoicing. In addition to being costly and ineffective from a processing perspective, it is not clear that a weekly payment schedule is even an industry standard. A weekly frequency puts a tremendous burden on the allocation of human resources in order to accommodate Payment Acceleration goals.

PG&E appreciates the need to issue initial and true-up invoices for separate, complete trade months as is done presently. Initially, we supported this concept, but after further analysis feel that with Payment Acceleration goals this may not be possible if the number of invoices is to be kept to a manageable level. The first APM Sample Payment Calendar on the CAISO website at <http://www.caiso.com/207c/207cbaf345620.pdf> (which is not consistent with the straw proposal dated 11-3-08) introduces the potential for multiple invoice dates across a given month in order to keep trade months as intact as possible for invoicing.

As PG&E understands the calendar, there would be separate invoices for initial statements and true-ups. This means for a given trade month, there would be 2 invoices

for initial statements, a third for a first true-up, a fourth for a second true-up, etc. The potential for creating an unmanageable number of invoices outweighs any benefits from preserving separate trade months. This calendar implies that any prior period adjustment would trigger a separate true-up invoice. Given the current uncertainty surrounding MRTU system stability, there is a tremendous potential for many true-ups into the future, especially if each true-up is multiplied across several SCIDs for a given market participant. (The second APM Sample Payment Calendar on the CAISO website introduced on 11-13-08 at <http://www.caiso.com/207e/207e7ea14f640.pdf> is an improvement over the first one because it aligns the invoice dates across initial and true-ups returning the invoice frequency to twice per month.)

PG&E feels that the CAISO 11-3-08 straw proposal for Payment Acceleration presents a better solution from an invoicing perspective. This proposal minimizes the number of invoice dates to 2 per month and includes all initial and true-up statements published at that point. This is similar to how it's done today when a prior period adjustment is included in a current invoice. Our current understanding being that Payment Acceleration potentially could create a separate statement date reflecting the adjustment and necessarily not include it on a current month statement. With this solution, PG&E requests that the CAISO include a supplemental report along with the invoice that separates the statements by trade month or type of invoice (initial, first true-up, second true-up, etc.) This would greatly assist us in reconciling the invoice across the separate months for accounting purposes.

PG&E appreciates the various invoicing timeline examples developed by the CAISO and other market participants. These have been very helpful in assessing benefits and risks for each proposal. Regardless of which direction the final Payment Acceleration recommendation takes, PG&E would like to request that any future invoicing examples depict timelines starting six months into Payment Acceleration and away from the start-up period months. This would give market participants a better understanding of (1) the impact of invoicing for a fully operational month, (2) the impact of prior day adjustments on invoice timing and (3) an indication of whether combining true-up invoices beyond a certain point in time or under certain dollar amounts should be considered.

4. Meter Data Substitution

For meter estimation process, when adjusting DA Scheduled Demand by an incremental amount to reflect Actual Load, the amount of adjustment will not exceed 15% of the DA Scheduled Demand. For example, if SC1's DA Scheduled Demand = 100 MW, the maximum estimation adjustment would be 15 MW. Therefore, SC1's Estimated Metered Demand used in the T+7B Settlement = 115MW (maximum).

Note: The proposed meter estimation methodology will never negatively adjust the DA Scheduled Demand. So in this example minimum estimation value = 100 MW, maximum estimation value = 115MW.

- *It appears that there is no defined direction to create an estimated meter data file. PG&E assumes that each SC will be able to develop their own methodology for meter*

- data substitution, or is it the intent to have every SC use a similar methodology? If the intent is to have all SC's use the same methodology, will the CAISO be developing and defining the methodology for them to use?*
- *If it is not the intent of the CAISO that each SC use the same methodology will each SC have the ability to choose how they do estimated meter data substitution? CAISO will need to define and set limitations on the methodologies created by the SC's so there is consistency.*
 - *It is not clear why this limitation for adjustments has been created. How was the stated 15% percentage derived? What are the pros and cons of using this specific percentage?*
 - *Once a methodology is chosen by the SC, if different ones can be used, can the SC change to a different methodology, if a better / easier / more equitable solution is identified at a later date? As MRTU stabilizes, we will better understand the market change over time and want to make sure that adjustments can be done if need be.*
 - *Estimated meter data will not be at settlement quality. It appears that this estimated data will be treated as SQMD by CAISO. If this data is treated by CAISO as SQMD, will the CAISO be giving a definition of SQMD in regards to estimated meter data for payment acceleration?*
 - *In regards to the percentage of limitation in adjusting to the actual load, penalties have not been addressed. What types of penalties if any will be assessed and how often will they occur? Will there be a threshold? There has been no discussion on the risks. PG&E would like more definition to what is at stake.*
 - *PG&E cannot stress enough that after the final methodology is determined, adequate time must be allocated before implementation in order for system re-designs, changes and testing to be done on all affected software, hardware and processing platforms. This will take more that 6 months to implement.*

5. Other Comments?

PG&E feels there has been a significant emphasis by the CAISO to expedite a Payment Acceleration solution among the various proposals discussed over the last several weeks. Consequently, PG&E has felt somewhat rushed to review and assess properly the various proposals. This is especially significant for the lead time required to create a Meter Data Substitution methodology if PG&E develops its own proxy to send to the CAISO at T + 5. PG&E's consistent preference as stated in our Stakeholder comments dated 10-14-08 and 10-24-08 has been to support Payment Acceleration post MRTU go-live only after a prolonged period of system stability where all significant system uncertainties are resolved. Implementing Payment Acceleration prior to a minimum of 6 months before go-live would introduce further complexity into the settlement system before the satisfactory resolution of issues related specifically to MRTU is attained. PG&E would prefer to have CAISO Board Review of the final proposal for Payment Acceleration only after the regression testing period is over for MRTU in order to have comfort that the market is working consistently and correctly.

