July 19, 2006

Comments of Pacific Gas and Electric Company
On PIRP Initiatives Whitepaper of June 28, 2006

PG&E provides these comments in response to the CAISO's July 12, 2006 request for input on its proposed approaches to the export of Participating Intermittent Resources Program (PIRP) energy. PG&E appreciates the CAISO's efforts to date in support of renewable resources.

The PIRP allows program participants to net uninstructed deviations across their entire portfolio over the course of a month, rather than settling each resource on a ten-minute interval basis (as is required for non-PIRP resources). This aspect of the program provides a benefit of over $2 million per year to the owners of the approximately 470 MW of PIRP capacity. This benefit is currently funded through uplift costs that are allocated to net negative uninstructed deviations. In addition, integration costs associated with PIRP resources are allocated to CAISO market participants through the CAISO-assessed Grid Management Charges (GMC).

Load serving entities (LSEs) served through exports of PIRP energy from the CAISO-controlled grid benefit from the renewable features of PIRP resources, but do not currently pay PIRP uplift costs, which are entirely borne by LSEs inside the CAISO control area (CAISO LSEs). The key issue raised by the CAISO in its whitepaper of June 28, 2006, is how to best remedy this inequity. One Scheduling Coordinator (SC) has proposed to restrict exports of PIRP energy that has been subsidized by CAISO LSEs.

The CAISO has proposed five options:

1. Do not allow exports of PIRP energy
2. Continue to allow export of PIRP energy and apply a service charge to PIRP exports to cover uplift and integration costs
3. Change the current allocation of PIRP monthly netting costs such that all Loads and Exports would pay
4. Establish a dedicated account for all uplift and integration costs for allocation to all loads served on the CAISO system
5. Require that PIRP resources serve load in the CAISO; exports of PIRP energy would be allowed only if dynamically scheduled

PG&E is a strong advocate for development of renewable energy. PG&E is also a strong proponent of transparency, clear economic signals, and cost causation principles. PG&E therefore believes that, as a general matter, specific types of renewables should not be favored over others and, to the extent possible, costs associated with renewables should be accurately identified and assessed to the entities that have caused and benefited from them. In other control areas in the WECC, the generator, and in turn the importer of power, is responsible for bearing the cost of exporting the associated energy from the control area. The CAISO should be consistent with other control areas in the WECC, and properly assign the costs of such exports.

With this background in mind, PG&E prefers Option 2 as described by the CAISO in its whitepaper of June 28, 2006. Option 5 should be considered as an alternative for LSEs procuring intermittent renewable generation that is dynamically scheduled in a way that completely transfers the burden of energy regulation to the receiving control area.

PG&E recommends that the CAISO *not* implement any option that precludes the export of renewable energy. It is important that regional trading protocols for renewable and intermittent energy be consistent throughout the WECC. No other control areas that California depends upon are precluding export of renewable energy. Unilateral actions by the CAISO to exclude the export of renewable energy may ultimately harm California and its LSEs, as other control areas may well follow suit with reciprocal export restrictions, reducing the availability of economically and environmentally optimal resources. Furthermore, restrictions on exports of renewable energy would likely be inconsistent with FERC policies, as well as with federal proscriptions against restraint of interstate commerce.

PG&E looks forward to working with the CAISO and other stakeholders in further developing these options, as well as the direction of the PIRP. For follow-up or questions, please contact Claudia Greif at (415) 973- 4489 or Brian Hitson at (415) 973-7720.