PG&E Comments

FERC Notice of Proposed Rulemaking
Credit Reforms in Organized Wholesale Electric Markets

Submitted by	Company	Date Submitted
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Pacific Gas & Electric Company (PG&E) appreciates the opportunity to provide comments regarding the ISO's February 17, 2010 draft positions for the Federal Energy Regulatory Commission's Notice of Proposed Rulemaking on Credit Reforms in Organized Wholesale Electric Markets.

1. **Do you support the proposal to have a seven (7) day settlement period versus California ISO's current fifteen (15) day settlement period?**

   In November 2009 the ISO implemented its Payment Acceleration initiative which reduced the payment cycle to two weeks. PG&E supported the ISO's Payment Acceleration initiative but continues to have significant concerns regarding the shift in cost and risk of financing from sellers to utilities and customers. The proposed additional acceleration to a seven day, or even a one day, payment cycle requires further study and assessment.

   A shortened settlement cycle in general is inconsistent with energy industry settlement cycles and as a result there is disconnect between the allocation of risk and funding of working capital and financing costs among participants.

   A weekly or daily settlement cycle would substantially increase the incentive to sell into ISO's daily or real time markets. There is clearly an inequitable risk and reward for the two counterparts. Access to "free" financing or working capital could potentially increase the price for short- and long-term supplies for hedging activities and reliability, and cause for potentially substantial price volatility.

   A shift to the ISO's daily or real time market will not impact long term financing needs for project financing of a generator, as it can still hedge long-term positions, or secure margins through financial SWAPS; however, the entities would now obtain free financing for most of its procurement working capital requirements. Clearly shifting a generator's cost of financing to the Utility and its customers.

Finally, further acceleration would have a significant processing impact on market participants. This is a manual process and would result in increased costs and would require more FTEs.

Since the intent of the accelerated payment was to reduce credit risk and align ISO settlement cycle with the bilateral market, PG&E proposes that FERC authorize the Independent System Operators to change payment cycles to match the same cycle as the bilateral market in order to reduce the inadvertent benefits that has resulted from the accelerated settlement cycle. Furthermore, net buyers should be paid accrued interest for the accelerated payments to be held in an escrow account.

The proposed treatment still retains the improved credit risk through early settlement and collection, but prevents the shift in cost of financing to utility customers and shareholders, and retains a balance between the bilateral market payment cycles and those of ISO. The interest payments to the net buyer would partially reduce the cost burden from utilities and customers for accelerated payments.

PG&E also recommends FERC to investigate mechanisms for utilities' access to capital requirements for any further acceleration in settlement cycle and for extreme price levels that may cause severe gap between rates and procurement costs exacerbated by the need to pay at a shorter settlement cycle with ISOs.

PG&E recommends further clarification about the details of FERC's proposed accelerated payment cycle (proposed length of accrual period, etc.).

2. **Do you support organized wholesale electric markets implementing daily settlement periods? Do you support implementation of daily settlements within one year of the proposed seven day settlement period?**

   As described above, PG&E has significant concerns with a seven day settlement period. PG&E has even greater concerns regarding the possibility of a daily settlement period. The implementation of a daily settlement period would require that the ISO, PG&E, and all other participants in the ISO's markets, reconfigure their hardware, software and accounting systems. Additional staffing would also be necessary in order to process the daily invoices. There would be significant costs associated with these changes, and PG&E agrees with the comments offered by the ISO that there would be little or no direct benefit.

3. **Do you support elimination of the use of unsecured credit to collateralize participation in a Congestion Revenue Rights auction?**

   In light of FERC's trend of tightening credit requirements, including unsecured credit limits, PG&E is open to the reexamination of the policy regarding Congestion Revenue Rights.

4. **Do you believe there is a need for California ISO to become a party to each transaction so as to eliminate any ambiguity or question as to its ability to manage defaults and offset market participants' obligations?**

   PG&E does not have a position on this issue at this time.

5. **Do you support reducing the number of days to post additional collateral resulting from a collateral call from the current three (3) business days to two (2) business days?**

   PG&E believes the time to post additional collateral resulting from a collateral call should remain three business days. A number of participants in the ISO's markets may not have the capability to post additional collateral in two days. The ISO appropriately applies progressive discipline action to participants who fail to post additional collateral after the allotted three days, and therefore PG&E supports the existing rule in place.

6. **Do you agree that the ISO should establish minimum creditworthiness requirements to participate in the market?**

   At this time PG&E believes that the ISO's current creditworthiness requirements appear to be adequate.

7. **Do you agree that the ISO must establish standards over and above its existing standards for requiring additional collateral as the result of a "material adverse change"?**

   PG&E supports the ISO's current standards and recommends that these standards remain in place.

8. **Are you in favor of the ISO applying different credit standards to different types of market participants?**

   PG&E supports the ISO's current practice of applying different credit standards to market participants that are categorized as "a Rated or Unrated Public/Private Corporation, a Rated or Unrated Governmental Entity, or a Local Publicly Owned Electric Utility", as described in the ISO's tariff.

9. **Do you agree that there should be a further aggregate unsecured credit cap to cover an entire corporate family? Should the cap be different for markets of different sizes?**

   PG&E supports the ISO's current policy for unsecured credit caps.