

COMMENTS OF PG&E

2012 GMC Rate Design - In its December 20, 2010 comments to the CAISO, PG&E stated its support for the CAISO's MWh-based 2012 GMC rate design proposal because it would provide greater transparency than currently exists, and would allow market participants to more easily determine the GMC impact of their CAISO grid transactions. Under the proposal, approximately 96% of the GMC would be recovered through two MWh-based charge types (Market Services and System Operations) assessed against both supply (generation plus imports) and demand (load and exports). Subsequently, on January 14, 2011 the CAISO released a modified GMC proposal that attempted to address the concerns that certain generators' GMC costs would increase substantially under its initial proposal. PG&E, however, cannot support the CAISO's modified proposal.

First, PG&E believes that the exemption from the System Operations MWh charge for 2/3 of supply minutes in the first year and 1/3 of supply minutes in the second year is overly broad and does not address the more narrow concerns expressed by certain generators. Second, the exemption of supply minutes in years 1 and 2 shifts too much of the GMC cost recovery responsibility to demand and thus to IOUs such as PG&E. The CAISO's initial GMC proposal was developed based on cost-causation principles. By contrast, the substantial, two-year GMC premium that PG&E would pay under the modified proposal is not cost-based and is unreasonable.

Revenue Requirement Cap Proposal - PG&E supports the CAISO's proposal to increase its revenue requirement cap by 1% per year over the period 2012 to 2016. The cap, currently set at \$197 million, provides a strong incentive for the CAISO to limit annual revenue requirement increases. If the CAISO exceeds the cap, it is required to make a full Section 205 cost of service filing with the Federal Energy Regulatory Commission to support its revenue increase. PG&E believes that the 1% annual escalation of the revenue requirement cap beginning in 2013 is reasonable and will obviate the need for the CAISO and Stakeholders to address this issue again until 2016.

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