Stakeholder Comments Template

Subject: Payment Acceleration Proposal

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 October 24th, 2008.

Submitted by	Company	Date Submitted
Please fill in name and contact number of specific person who can respond to any questions on these comments.	*Pacific Gas & Electric Co*	*10/24/08*

1. **Bifurcation of DA/RT, Estimation & Settlement Timeline Options**
   During the Payment Acceleration Stakeholder meeting on October 16th, 2008, alternatives were discussed in regards to the Settlements timeline, estimation, and bifurcation of DA/RT settlements. The following options were discussed:

   - Option #1 - Add a Settlement calculation at T+9B (in addition to the proposed 'DA only' calculation at T+2B). This would provide a settlement run for RT charges prior to the proposed T+50B timeline, as well as allow for a DA/RT bifurcation at T+2B. The T+9B calculation would use one of the following estimation options absent polled or SC submitted data availability:
     - DA IFM Schedules Only
     - DA IFM + adjustment based on CAISO Actual Load
     - Current Credit Liability Meter Data estimation (uses the IFM DA schedule and adder of + /- 10% factor (or other % Factor). In addition, T+9B would replace the T+7B credit run.

   - Option #2 - Replace the proposed T+2B DA Only Settlement calculation with a T+5B calculation that includes both DA and RT charge codes. The T+5B calculation would use an estimation methodology based upon hourly load forecast data, which is used for all real-time load settlement calculations prior to receiving actual meter data. In addition, T+5B would replace the T+7B credit run.

	Timeline	Estimation
Option #1	T+2B – DA Only T+9B – DA &RT T+50B – 1st true-up T+100B – 2nd true-up T+18M - 3rd true-up T+35M - 4th true-up	One of three proposed options (i.e. DA IFM schedules)

Option #2	T+5B – DA &RT T+50B – 1st true-up T+100B – 2nd true-up T+18M - 3rd true-up T+35M - 4th true-up	DA schedules + hourly load forecast data

Please provide comments on these options:

PG&E favors the original proposal for Payment Acceleration from the CAISO (discussed in California ISO Payment Acceleration Project Discussion Draft May 30, 2008 and California ISO Payment Acceleration Project Feasibility Analysis October 8, 2008) which does not distinguish between Day Ahead (DA) and Real Time (RT) Settlements. As presented above, the separation of DA and RT without additional safeguards, introduces several potential issues and risks into the settlement process:

(1) Gaming – The bifurcation creates opportunities for gaming by both generators and LSEs. Generators could potentially schedule (and get paid) in DA but not show up in RT. This creates an extended period of payment advances to generators before a true-up 50 days later. Conversely, LSEs with 500MW or less do not have to bid into the IFM, but can still show up in RT. Charge code 6044 - Interim Scheduling Charge for Under-Scheduled Load would exempt these LSEs from charges related to underscheduling load. Consequently, larger LSEs could potentially pay a higher % of UFE.

(2) Credit Risk – What happens to generators who go into bankruptcy, default or experience an unplanned outage between the DA and RT settlements? LSEs would be exposed to increased credit risk as a result of advancing payment in DA but not getting paid back in RT (if a true-up requires a payment back to an LSE). PG&E would be very concerned about the increase of credit risk to LSEs without the corresponding introduction of generator collateral requirements with the ISO, or the ISO must estimate the shortfall and require the generator to make up the difference immediately.

(3) Infrastructure Changes – There is presently no software system infrastructure at PG&E to manage <u>both</u> settlement bifurcation and a smooth transition to MRTU. The major concern is the requirement to modify internal meter data systems for bifurcation prior to MRTU go-live. PG&E is presently in the process of systems modification for MRTU. Requiring further modifications due to bifurcation could possibly impede progress toward timely MRTU system compatibility by the go-live date.

2. **Methodology for Estimating Meter Data**
SCE has suggested the CAISO to seek additional alternatives to the three estimation options presented on September 18th. In particular, SCE recommends the CAISO to

investigate the meter estimation methodology used by the New York ISO. It is their understanding that the NYISO methodology is based upon hourly load forecast data which is used for all real-time load settlement calculations prior to receiving actual meter data. NYISO has been using this methodology since its market inception in 1999 and may provide the CAISO with a fair and viable alternative to the estimation approaches currently being proposed.

> CAISO is exploring this option. Would you support an estimation methodology based on hourly load forecasts?

This methodology is better suited to PG&E's current processes than the alternatives presented by the CAISO and Calpine. However, we would like CAISO to do more research and analysis on the feasibility of adopting this methodology as a viable alternative. Hourly load forecasts potentially should provide a more accurate estimate of meter data than using other proxies. Changes to current technology would need to be considered since PG&E does not have a current process in place for this. One PG&E concern in using the hourly load forecast, however, would be how this data would be adjusted for items such as UFE, Direct Access, Munis, etc. Consequently, larger load serving entities could bear a much larger load and corresponding financial risk if no adjustments were made.

3. **Implementation Schedule**
   Do you a support the phased implementation approach discussed in the October 16th Stakeholder Meeting? Assuming invoicing remains the same as the MRTU implementation (monthly at month-end), could you support an accelerated timeline within 1-3 months post MRTU go-live?

   PG&E's preference, as stated in our Stakeholder comments dated 10-14-08, is 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 within 1-3 months after MRTU go-live would introduce further complexity into the settlement system before the satisfactory resolution of issues related specifically to MRTU is attained.

4. **Invoicing**
   Would you support an invoice solution that meets the following criteria?

   - Does not mix initial and true-up statements from previous accounting months
   - Includes trade dates from a specific month only, but not necessarily includes trade dates that encompass a full month (i.e. could include a partial month).
   - Monthly charges are on invoice that included the month end date.

   Please provide detailed examples of your preferred invoicing solution.

   PG&E is aware that the invoicing process under Payment Acceleration has the potential to become overly complicated and difficult to reconcile if a given invoice

could include multiple trade months as well as initial and true-up statements. On the other hand, we are also concerned about generating significantly more invoices than under the current process. We would generally favor an invoice design that: (1) separates invoices by trade month (or partial trade month), (2) separates invoices by initial and true-up statements and (3) includes the month end settlement date for any invoiced monthly charges. One issue regarding trade month specific invoicing, however, is how to deal with invoices generated specifically for a prior day adjustment or good faith negotiation due to a dispute resolution. Presently, these adjustments are included in a current period invoice. If these were generated for specific trade months under Payment Acceleration, there could be the potential to receive an invoice extending to the end of the dispute window at T+36M. With respect to invoicing frequency, PG&E would favor monthly or semi-monthly but does not prefer a weekly cycle due to the increase of internal processing time required to support it.

5. Other Comments?

- *PG&E reiterates its position that interest charges should be imposed on variances between initial and true-up invoices. Interest should only be calculated on the DA charge codes included in the bifurcation. This creates the incentive for DA schedulers to be as accurate as possible and compensates Market Participants for the time value of money between the DA and RT invoices. This assumes that the CAISO would have the appropriate systems in place to compute and allocate interest charges/receipts between generators and LSEs.*

- *PG&E also would like clarification if this Payment Acceleration process will specifically impact RMR contracts as well or if these will be handled in a separate Payment Acceleration process.*