

SCE Comments on the CAISO revised tariff to accommodate LT-CRRs

SCE recommends some minor changes in the draft tariff language to provide clarity and/or to accommodate recently proposed policy changes. Below are recommendations for changes section-by-section.

36.7.1.2 Transfer of LT-CRRs

It is SCEs understanding that the transfer of rights as part of load migration is to be treated differently than transfers for other purposes. It is our understanding that transfers of LT-CRRs for purposes other than load migration is limited to the current year. Conversely, the transfer of LT-CRRs for load migration must be for all years remaining for the right. Therefore, SCE recommends the following change to section 36.7.1.2:

A LSE may transfer or sell the one-year segment (or portion of the one-year segment) of a LT-CRR that follows the most recent annual allocation process using the Secondary Registration System. A LSE may not transfer or sell more than the one-year segment (or portion of the one-year segment) of a LT-CRR that follows the most recent annual allocation process using the Secondary Registration System [except in the case of transfers in accordance with load migration \(see section 36.8.5.1.1.1, 36.8.5.1.1.2, and 36.8.5.1.2\)](#). A LSE may enter into agreements that are the financial equivalent of a transfer or sale of all or a portion of the LT-CRR, however, such transactions will occur outside of the Secondary Registration System (and outside of the other CAISO business systems). Moreover, a LSE who enters into an agreement that is the financial equivalent of a transfer or sale of all or a portion of an awarded LT-CRR, will remain the holder of record for the LT-CRR for CAISO settlement purposes notwithstanding the agreement. The LSE to whom a LT-CRR was originally awarded, remains the holder of record for CAISO settlement purposes unless and until the LT-CRR is transferred to another LSE due to Load migration as described in Section 36.8.5.

36.8.3.4 Source Verification

Pursuant to the stakeholder conference call on 1/16/07, it is SCEs understanding that the CAISO intends to change the source verification period. Therefore, SCE recommends the following change to section 36.8.3.4:

In CRR Year One, nominations for Tier 1 and Tier 2 of the annual CRR Allocation and Tier 1 of the monthly CRR Allocations must be source verified. Through the source verification process described in the Business Practice Manuals, an LSE must demonstrate that it could actually Schedule Energy from the nominated CRR Sources to serve its Load either through ownership of, or contractual rights to, the relevant Generating Units, or a contract to take ownership of power at the relevant source such as a Trading Hub or a Scheduling

Point. Source verification will use data for the period beginning ~~September 1, 2004 and ending August 31, 2005~~ January 1, 2006 and ending December 31, 2006 as the basis for verification. Nominations of CRRs whose CRR Source is a Scheduling Point must be source verified in accordance with Section 36.8.4.1.

36.8.4 Eligible Source for CRR Allocations

In the CRR Allocation processes for Seasonal and Monthly CRRs, sources of CRR nominations can be either PNodes or Trading Hubs. For LT-CRRs, a Trading Hub is not an eligible source...

While SCE does not object to the exclusion of trading hubs for long-term rights, we note that this solution does not address the more significant issue. The more significant issue is that the optimization methodology (i.e. maximize the total MW of CRRs allocated) and the structure of trading hubs in the allocation process effectively gives trading hubs a higher priority than a point-to-point that utilizes a single generating node in the trading hub. Given this structure, the potential exists to limit long-term rights simply by virtue of allowing trading hub requests in the first two tiers of the allocation process. It is our understanding that the CAISO is looking into potential remedies to this issue. SCE believes that this issue needs to be resolved before the allocation of long-term rights pursuant to the implementation of MRTU.

36.8.5.1.1.2 Load Migration That Occurs After Completion of the Annual Allocation Process

It is SCE's understanding that the cash payment option is only available for LT-CRRs in the current year. Beyond the current year, the load losing LSE would be required to transfer the actual right. It is our understanding that this methodology was to ensure that LT-CRRs appropriately followed load as well as to facilitate tracking of CRR transfers due to load migration. The original language above appears to indicate that in the current year, the load losing entity could either transfer the right or make a cash payment, but in the subsequent years neither of these options are available (i.e. they do not have to transfer the right nor make the cash payment). This seems contrary to the intent. Therefore, SCE recommends the following change to section 36.8.5.1.1.2:

If the Load Migration occurs after the annual allocation process has been completed for the following year, a LT-CRR holder may transfer the following year's segment of the LT-CRR, and only the following year's segment of the LT-CRR, using the options set forth in Section 36.8.5.1.2; for all of the other remaining years of the LT-CRR, the LT-CRR holder must transfer the LT-CRR via the secondary registration system. may not use the options set forth in Section 36.8.5.1.2 to transfer the LT-CRR (or the proportionate portion thereof) to the Load-gaining LSE.

36.8.5.1.2 Mid-Year Adjustments in Seasonal CRR and LT-CRR Holdings.

It is inappropriate to require the transfer of the CRR holdings. This is inappropriate for two reasons. First, many LSEs will likely have holdings of CRRs that are composed of

CRRs that were allocated and CRRs purchased either in the auction or as a bilateral transaction. Obviously, it is inappropriate to require an LSE to transfer CRRs that it purchased simply because load has migrated. Second, by requiring a transfer of holdings, an entity could insulate itself from ever losing any CRRs. This could be accomplished by receiving an allocation of CRRs that are then sold bilaterally. Thus, when load migrates, the LSE could claim that no transfer of CRRs or their value is required, as it no longer holds CRRs. Clearly this is an inappropriate outcome as well. SCE recommends modification of section 36.8.5.1.1 of the CAISO tariff as follows:

If an LSE with Seasonal CRRs loses Load through Load migration to another LSE at any time between annual CRR Allocations, the Load-losing LSE must compensate the Load-gaining LSE in one of the two options set forth in this Section 36.8.5.1.2. If an LSE with a LT-CRR loses Load through Load migration to another LSE, and if the Load migration occurs after the annual allocation process has been completed for the following year, the Load-losing LSE may transfer the following year's segment of its LT-CRR using the two options set forth in this Section 36.8.5.1.2. The two options for a load-losing LSE are as follows: 1) using the SRS, the Load-losing LSE may transfer a percentage of its Seasonal CRR ~~holdings that were allocated including any adjustments to that allocation pursuant to prior load migration for that year~~ (or a percentage of the one-year segments of its LT-CRR ~~that were allocated including any adjustments to that allocation pursuant to prior load migration for that year~~ ~~holdings~~), for the remainder of the annual CRR cycle and for both on-peak and off-peak periods, to the Load-gaining LSE in a quantity proportionate to the percentage of its Load lost to the other LSE through migration; or 2) the LSE who loses Load through Load migration to another LSE may make cash payments to the relevant Load-gaining LSE in a value commensurate with the hourly CRR Payment stream that would have accrued to the CRRs transferred, based on the quantity of CRRs awarded to the Load-losing LSE. If the current holdings of the Load-losing LSE are not sufficient to allow for option 1 above, then the Load-losing LSE must utilize option 2 above.

36.8.7 Renewal of a LT-CRR and 36.8.8 Obtaining a LT-CRR from a New Source

These sections should be deleted as they are already indicated in the allocation process.

36.9.2.2 Prepayment of Wheeling Access Charges for LT-CRRs

SCE does not object to this section of the tariff but reiterates that changes will be needed in the credit and collateral sections of the tariff to ensure that LSEs serving load outside of the control area are not able to use the forfeiture of rights for the failure to pre-pay the access charge as a means to convert a LT-CRR obligation into an LT-CRR option. SCE

looks forward to participating in the stakeholder process to develop appropriate credit and collateral rules.

11.2.4 CRR Settlements

In general, the section needs to be modified to accommodate the recent CAISO proposal for full funding which includes monthly settlement of all CRRs and the collection/distribution of revenue under/over collections to load. SCE acknowledges that the new proposal was put forth after this draft of the tariff was constructed.