MRTU:
CRR Allocation Rules for LSEs Serving Load Within the CAISO Control Area

Market Surveillance Committee Meeting

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Prepared By

Lorenzo Kristov

Problem Statement

- CRR Allocation Rules for Internal Loads has been work-in-progress in stakeholder process since March.

- In response to ISO request for comments, parties overwhelmingly (though not universally) preferred to continue down the allocation path, rather than switch to a full auction approach.

  - Parties generally prefer that CRRs reflect congestion cost exposure, rather than just access charge payments.

- ISO Proposal now being finalized for 9/27 release.

- MSC views are requested on key design questions on which stakeholders disagree.

1. ISO Validation of CRR Sources

ISO proposal would validate sources for ~70% of 1st-year nominations, and assign higher priority to these in allocation.

- Option A (ISO proposal) - ISO validates LSE source nominations for 1st year allocation only (annual & monthlies)
  - "Grandfathering" mechanism operates in 2nd and subsequent years, whereby allocation process gives higher priority to LSE requests to renew CRR holdings than to requests for new CRRs.
  - Provides incentives for CRR patterns to remain stable over time.
  - Increases certainty for LSEs who want to renew CRRs for long-term bilateral energy contracts.

- Option B - ISO validates LSE source nominations in all years
  - Concern that LSEs will hold onto valuable CRRs when they no longer serve load from that source location
  - New CRR requests would have same allocation priority as renewals.

2. Validation Based on History or Expected Congestion Cost Exposure

- Option A - Validate sources based on LSE gen ownership and bilateral contracts during specified historical period.
  - ISO leaning toward this approach.
  - Concern about incentive issues raised by MSC and LECG if ISO committed to allocate CRRs for new sources in validated high-priority stage of allocation process.

- Option B - Validate sources based on expected supply sources (gen ownership and contracts) during period to which CRRs will apply.
  - Participants tend to favor this approach as offering better match between CRR allocation and their expected congestion exposure.

3. Retail Access Load Migration

- Principle that "CRRs follow load" => two types of CRR adjustment needed when retail load migrates from LSE1 to LSE2:

  – Prospective - adjustment to CRR entitlements in future allocations

  – Current period - transfer MW or $$ to ensure current CRR coverage

Prospective Adjustments

- Option A (ISO Proposal) - LSE1 loses proportional share of grandfathering priority in subsequent allocation processes.

  – CRRs for the subtracted quantity are included in grandfathered stage SFT but not allocated, to free up grid capacity for LSE2's new CRR requests.

- Option B - LSE1 does not lose any grandfathered rights as long as its holdings are within its maximum eligibility.

3. Retail Access Load Migration - cont.

Current Period Adjustments

- Option A - LSE1 transfers a proportional share of its current CRR holdings to LSE2 via ISO Secondary Registration System (SRS) for remainder of current year and current month.
  - ISO settlement will automatically pay LSE2 the settlement value of the transferred CRRs

- Option B - LSE1 makes cash payment to LSE2 to reflect the value of a proportional share of its CRR holdings, but does not transfer any actual CRRs.
  - Value can be determined at time of load migration based on most recent applicable auction prices, or at end of CRR period based on actual CRR revenues.