

Comments of Pacific Gas and Electric Company CAISO CRR Enhancements as Discussed in 9/8/09 Stakeholder Meeting

PG&E submits these further comments in response to the CAISO September 8, 2009 stakeholder meeting in which the CAISO presented and discussed two recent CAISO CRR Issues Papers¹. Please refer to PG&E's comments and recommendations on these issues submitted August 28, 2009. The additional comments outlined below are intended to address the few new issues and design modifications raised by the CAISO during the stakeholder meeting, specifically:

- o Timeline and Alternatives to the CAISO Proposal on Liquidating Defaulted CRRs
- o Changes to the CRR Load Migration Process and Responsibilities
- o Accelerated Consideration of Auction Revenue Rights (ARRs)

Background

The CAISO has issued several CRR design enhancement issue papers recently covering both Credit and Non-Credit related CRR enhancements. The near-term CRR Credit policy related enhancements are now proceeding to a final draft proposal stage (expected 9/22/09), while the future Non-Credit related issues are still in the 'issues identification' stage. The CAISO has requested any new comments or concerns, and in addition has requested some stakeholder input on the level of interest in the implementation of Auction Revenue Rights (ARR) as a replacement to the current CRR allocation process.

The immediate Credit policy issues are: 1) *Refinements to the Pre-Auction Credit Requirements Calculation*; 2) *Reevaluation of CRR Holding Credit Requirements under Extra-ordinary Circumstances*; and 3) *Process for Liquidating the CRRs of a Defaulting CRR Holder*. Non-Credit related issues include: 1) *Process for Adjusting CRR Holdings Due to Load Migration*; 2) *Method for Handling Hub CRRs*; 3) *Elimination of Multi-point CRRs*; 4) *Weighted Least Squares Objective Function in the SFT*; 5) *Sales of CRRs in Auctions*; 6) *Modeling of Outages*; and 7) *Tracking of LT CRRs*.

PG&E Comments and Recommendations

Near term - Credit Policy Related CRR Enhancements

Please refer to PG&E's August 28, 2009 comments on each of these three issues. Based on the focus and discussions at the stakeholder meeting, PG&E in addition offers these further comments and recommendations.

¹ Near Term Enhancements to CRRs 8/14/09; Straw Proposal on CRR Credit Related Issues 9/1/09.

a) Liquidating Defaulted CRRs

PG&E does not support the CAISO proposition for *Liquidating the CRRs of a Defaulting CRR Holder* through auction at this time. PG&E feels that this proposal has not yet been sufficiently defined. Compared to the *Pre-Auction Credit Requirements* and *Reevaluation of CRR Holding Credit Requirements under Extra-Ordinary Circumstances*, the straw proposal for the *Process for Liquidating the CRRs of a Defaulting CRR Holder* is lacking a specific proposal and it is premature to characterize it as even as a straw proposal. This item should be removed from the ‘Near Term’ CRR Enhancement process and considered more appropriately with possible ‘Future’ Enhancements

Key issues remain unanswered. The CAISO has failed to address stakeholder concerns as to whether the CRR should be liquidated and resold in auction, liquidated and made available through the allocation process, or if CAISO should hold the CRR to expiration. Each of these and possibly other alternatives will have important cost allocations implications that have yet to be sufficiently considered. This proposal is premised on CAISO liquidating the CRRs of defaulting parties but stakeholders have raised concerns whether this appropriate or the best course of action. Given these concerns, it is premature to offer recommendations with respect to the timing of possible liquidations.

The only specific proposal made by CAISO is to set the minimum sales price “as the expected IFM value of the CRR for the remaining term of the CRR, based on most recent auction price data.” CAISO left unanswered the crucial question as to whether a risk premium should be applied to the minimum sales price and if so, how to calculate the risk premium. On principle, PG&E does not support applying risk premiums, but cannot offer any additional recommendations without a more comprehensive straw proposal.

Given the lack consensus regarding whether the proposal is desired by stakeholders and the lack specific details if it is desired, PG&E requests that this proposal not be on the same timeline as the other Near-term straw proposals. To support an appropriate stakeholder process, PG&E requests that CAISO justify why CRRs of a defaulting party should be liquidated. If consensus is reached among stakeholders that the CRRs in questions should be liquidated, then the CAISO should offer justification why it should set a minimum sales price. Further if consensus is reached among stakeholders that a minimum sales price should be established, then the CAISO should justify whether a risk premium adjustment should or should not be applied. Finally, if consensus is reached that a risk premium is applicable; the CAISO should specify how the minimum sales price (including the risk premium) is calculated.

Future – Non-Credit Related CRR Enhancements

Please refer to PG&E’s August 28, 2009 comments offering variously support, opposition and requests for further proposal details for covering all issues. With added information and discussions at the stakeholder meeting, PG&E offers the additional comments and recommendations.

a) Adjusting CRR Holding for Load Migration

At this time, PG&E continues to oppose endorsing any unspecified and unbounded changes to the CRR load migration process that the CAISO has indicated is working well. While the CAISO provided some basis for their legal concerns with respect to the CAISO handling of retail load data, the clear need for a change has not been adequately established. Any alternative process, yet to be developed or proposed at this point, will have regulatory and legal issues as well. PG&E does not oppose improvements to the complex CRR load migration process, however any changes should be developed and supported by the effected IOUs/LSEs and not reflect a possible unilateral concern and decision by the CAISO.

b) Auction Revenue Rights (ARR)

The CAISO has asked about the level of interest for ARRs, and further suggesting that moving forward now with ARRs would simplify and possibly eliminate the need for a number of upcoming CRR process enhancements. Given the fledgling state of MRTU, it is premature to consider significant new market redesigns such as the replacement of the CRR allocation process with Auction Revenue Rights in the near-term.

PG&E supports investigating all proposals that simplify the existing congestion hedging process including implementation of ARRs and note that the ARRs are appropriately included as possible market enhancements within the CAISO’s 5-Year Roadmap. Given that market participants have not indicated this as a high-priority enhancement to-date, any further discussions regarding ARRs should not begin until at least after the 2010 CRR Annual Process ends in November. PG&E recommends that to better support the assessment of ARRs within the 5-Year Roadmap process, that the CAISO should prepare a report that compares existing ARR policies and procedures at all RTO/ISOs that have currently implemented ARRs and to the extent those entities moved from a CRR framework to an ARR framework, CAISO should report on the benefits and costs associated with the switch. For any support for ARRs, it is crucial that CAISO document the potential cost savings and/or efficiencies gained.

c) Signature Validation Data for PNP

On September 10, CAISO issued Technical Bulletin 2009-09-001 titled *Annual CRR Allocation Process: Details of the Priority Nomination Process*. This technical bulletin describes (among several topics) how CAISO calculated eligible MW quantities for each source-sink pair in the 2010 Annual PNP (Priority Nomination Process). PG&E

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believes there are contradictory statements in the tariff that are confusing to CAISO and market participants. Indeed, CAISO issued two different sets of Signature Validation Data to market participants which included and excluded Long Term CRRs from their calculations. PG&E believes that the intent of the PNP was not followed this year because of inadvertent omissions in the tariff language.

PG&E requests that CAISO add this issue to the Non-Credit Related CRR Enhancements and schedule stakeholder meeting such that a revised procedure can be implemented prior to the 2011 Annual CRR PNP (likely to occur in September 2010).

For follow-up or questions, please contact Dan Sparks (415-973-4130) or Glenn Goldbeck (415-973-3235).