

June 20, 2018

CAISO Board of Governors
California ISO
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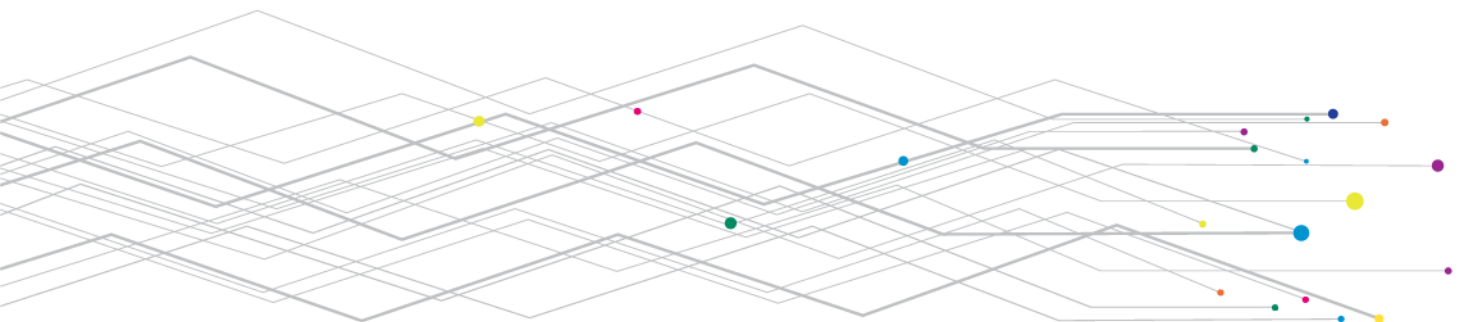
Re: Congestion Revenue Rights Track 1B Proposal

Dear Members of the Board:

I am writing to express Powerex Corp.'s support for the Congestion Revenue Rights (CRR) Track 1b proposal. The proposal represents an important complement to the Track 1a measures unanimously approved by the Board on March 22 of this year.

The Track 1b proposal makes important changes to the manner in which CRRs would be financially settled. As has been extensively documented, congestion revenues in the day-ahead market are frequently not sufficient to fund payments to CRR holders. This is due to a mismatch between the transmission capability that was forecast and available at the time of the CRR allocation and auction process and the transmission capability available in each hour of the day-ahead market. While efforts can be made to reduce these differences, they cannot realistically be completely eliminated. Today, the funding shortfall due to these transmission differences is borne by California loads, notwithstanding that the loads are not responsible for the shortfall, cannot take steps to avoid the shortfall, and may not benefit from the CRRs receiving the payments. Under the Track 1b proposal, however, CRR holders would receive reduced payments based on the actual amount of transmission available on a day-ahead basis; loads would no longer bear the financial consequences of CRR funding shortfalls.

Powerex believes the Track 1b proposal represents an important and necessary alignment between the market activity that benefits from CRR payments and the activity that bears the cost of CRR payment shortfalls. The Track 1b proposal would result in CRRs that, as is the case in areas of the west outside the CAISO, expose transmission customers to the risk that the transmission capacity actually available each day may be less than what was forecast or sold on a forward basis. This approach has proven to be workable elsewhere in the west, and Powerex believes it can also be workable for the CAISO CRRs. The fact that CRRs would no longer be a "perfect hedge" should not, in and of itself, be viewed as unworkable or problematic.



Powerex's support for the Track 1b proposal is limited to its application as a transitional design for settlement of CRRs only during 2019, however. In particular, Powerex believes that the proposal's use of after-the-fact adjustments to CRR payments is acceptable only due to the need for an approach that can be implemented quickly. A more durable and economically efficient design should seek to inform CRR holders of any reductions or financial adjustments *prior to* the day-ahead market, allowing participants to consider their adjusted CRR positions when submitting bids or self-schedules. Similarly, Powerex conditionally supports the proposal to reduce to 65% the fraction of forecast transmission capability that is available in the annual CRR process for 2019. Once a workable design is in place to equitably and efficiently allocate the consequences of changes in transmission capability, the fraction of forecast capability available in the annual process should be restored, or perhaps increased beyond the 75% level.

Powerex appreciates CAISO staff's thoughtful engagement with stakeholders to consider a range of perspectives in developing the Track 1b proposal. As with the prior enhancements, the CAISO proposal has sought out a reasonable middle ground between widely different views. Some stakeholders have advocated that CAISO take no further steps until the effects of the Track 1a changes can be evaluated, while other stakeholders continue to advance the view that CRRs should not be auctioned by CAISO at all. Powerex believes that CAISO's Track 1b proposal contains reasonable and prudent near-term steps to address widely-recognized problems with the performance of the existing CRR framework, while reiterating its commitment to examine more comprehensive improvements in Track 2.

Powerex respectfully requests that the Board express its continued commitment to transmission open access principles and to approve the CAISO's Track 1b proposal.

Sincerely,

/s/

Mike MacDougall

Powerex Corp.

Vice President, Trade Policy and IT

