September 15, 2009

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA CONCERNING AUCTION REVENUE RIGHTS VERSUS CONGESTION REVENUE RIGHTS

During a stakeholder conference call on September 8, 2009 concerning proposed changes in the implementation of Congestion Revenue Rights ("CRRs"), the CAISO asked stakeholders to submit comments on the potential use of Auction Revenue Rights ("ARRs") in place of CRRs. For the reasons set forth below, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California ("Six Cities") strongly oppose the substitution of ARRs for the currently effective CRR mechanism.

The Cities' objections to the use of ARRs versus CRRs are based upon the relatively greater level of predictability in hedging against congestion costs for delivery of specific resources under CRRs than under ARRs. Under the CRR construct currently in effect, LSEs that have made or wish to make long-term resource commitments can request specific CRRs to hedge against congestion costs that may affect delivery of the resource. Although the Cities understand that ARRs may take different forms, as the Cities understand the general ARR concept, LSEs would receive a share of ARRs that they could use to offset congestion costs. But there would be no assurance that the ARRs received by a particular LSE would bear any relationship to that LSE's exposure to congestion costs for delivery of the resources for which it has made commitments. Some LSEs might receive ARRs substantially in excess of the congestion costs they would incur to deliver their resources, while other LSEs might experience congestion costs for the delivery of resource commitments far in excess of their allocated ARRs. The ARR approach could lead to disparate treatment of LSEs that have long-standing resource commitments and reduce the ability to hedge against congestion costs in evaluating the suitability of future long-term resource commitments. Both consequences would increase LSEs' exposure to price volatility and create a disincentive to continuation or formation of long-term resource commitments.

The Six Cities also are concerned about increased exposure to financial risk under an ARR paradigm. If all ARRs are auctioned to the highest bidders, and LSEs get a "slice" of the ARR revenues, then a default on ARR auction payments will reduce the congestion hedge for all LSEs entitled to receive auction revenues. The CRR model substantially mitigates this exposure, as

LSEs are on both sides of the congestion hedge (allocated CRR obligation and congestion costs incurred) for the CRRs that they use to hedge delivery costs for specific resources.

Submitted by

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