March 18, 2011

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING 2011 CRR ENHANCEMENTS ISSUE PAPER

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit the following comments in response to the ISO's March 4, 2011 Issue Paper on 2011 CRR Enhancements (the "CRR Issue Paper").

<u>Reduction in Granularity of CRRs</u> - - The CRR Issue Paper proposes to reduce the granularity of CRRs from the current .001 MW level to .1. The Issue Paper indicates that this would reduce the number of CRRs tracked for load migration from 768,518 to 25,128 and the MW value of tracked CRRs from 13,383 MW to 7,577 MW.

The CRR Issue Paper does not include sufficient information to allow the Cities to assess fully the potential impacts of the ISO's proposal to reduce the granularity of tracked CRRs. It appears to the Cities that reducing the overall granularity of CRRs by the order of magnitude proposed by the ISO may have unintended consequences that have not been fully evaluated. If the administrative problem the ISO is attempting to address primarily relates to tracking of CRRs to follow load migration, then the Cities would prefer a solution that focuses on modifications to the load migration tracking process itself. Pending additional information on the overall impact of the proposal to reduce CRR granularity and consideration of alternatives focused on the load migration challenge, the Cities are unable to express a position on this portion of the proposal at this time.

<u>Modeling of Operating Transfer Capability at Interties to Improve Revenue Adequacy of CRRs</u> - - The CRR Issue paper proposes to revise the method the ISO uses to determine the amount of CRRs to release so as to improve the revenue adequacy of CRRs. The proposed new method would base the amount of CRRs to be released for interties on analysis of historical data on Operating Transfer Capability ("OTC") for each interface.

As an initial matter, the Six Cities would like to see an up-to-date analysis of the anticipated effects of the OTC approach on the amounts of CRRs expected to be released at the interties.

Further, it is not clear that adoption of the proposed OTC method will result in a substantial improvement in overall revenue adequacy for CRRs. From the data released by the ISO, it appears that revenue inadequacy primarily is a result of transmission outages. While the OTC approach might reflect more accurately the effects of planned outages and thereby result in some improvement in revenue adequacy, it seems unlikely that it would capture fully or systematically the effects of forced outages. As an alternative (or in addition), the ISO could consider requesting permission from FERC to relax the full funding requirement, at least for allocated CRRs, where revenue inadequacy results from a forced outage. Such an approach would approximate in the CRR context the effects of a forced transmission outage on firm physical transmission rights.

"Simplification" of the Allocation Process - - The CRR Issue Paper proposes to reduce the number of tiers for allocated CRRs in the annual process and to eliminate allocated CRRs altogether in the monthly process. The ISO proposes to retain the Priority Nomination Process ("PNP") and the Long Term ("LT") Tier for annual CRR allocations but wants to merge the current subsequent allocation tiers (Tiers 2 and 3) into the annual auction. The ISO proposes to eliminate allocations of monthly CRRs and release all monthly CRRs through the auction process. In conjunction with the proposals to release a larger quantity of CRRs through the auctions, the ISO proposes to revise the method for allocating auction revenues from the current method, based on measured demand, to a method that reflects loads' exposure to congestion charges. The ISO's proposed new approach also would allow LSEs to nominate CRRs obtained through the annual auction in the PNP for the subsequent year (subject to the quantitative limit for PNP nominations).

The Six Cities oppose the ISO's proposals to merge the Tier 2 and Tier 3 annual allocations with the annual auction and to release monthly CRRs only through the auction. Because the Cities rely to a substantial degree on allocated CRRs to hedge against congestion costs that otherwise would apply to deliveries needed to serve their customers, the Cities oppose any reduction in the total CRRs eligible for nomination and allocation. Although the ISO proposes to redistribute auction revenues in proportion to loads' exposure to congestion, there are multiple reasons why auction revenues may or may not closely match congestion costs incurred to serve the Cities' loads. First, prices for CRRs purchased through the auctions will not perfectly match actual congestion costs and may not even be close. Second, the proposed method for allocating auction revenues based on exposure to congestion costs would be applied on a DLAP basis, and the average congestion exposure for a DLAP will not necessarily match actual congestion costs associated with the resource portfolios of individual LSEs within a DLAP. Allocated CRRs are more likely to provide an effective hedge against actual congestion costs. In addition, releasing more CRRs through auctions could increase security requirements. The potential costs to the Six Cities of diminishing the effectiveness of CRRs as a hedge against congestion costs far outweigh any purported (but so far unquantified) benefits of "simplifying" the CRR process in the manner proposed by the ISO.

At a minimum and for the reasons discussed above, if any of the existing allocation tiers are merged for administrative convenience, the total eligible nomination percentages for allocated CRRs should remain the same (*i.e.*, up to 100% of the Seasonal Eligible Quantities or Monthly Eligible Quantities, as applicable, for the combined allocation tiers). However, the Six Cities request that the ISO provide additional information and analysis to explain why any modification to the current tier structure should be considered or would improve the overall process.

Multi-Period Optimization of LT CRRs - - The Six Cities support development of multi-period optimization for LT CRRs as part of this stakeholder process. The LT CRR process as currently structured does not provide sufficient assurance that LT CRRs will be available beyond the initial ten year period to support long-term resource commitments. Under the current LT CRR nomination rules, LSEs are not able to secure LT CRRs to replace CRRs that will expire subsequent to the initial ten year period or have assurance that they will be permitted to extend LT CRRs that currently are in place. This uncertainty with respect to continued availability of LT CRRs beyond the initial allocation period is an obstacle to long-term resource procurement and is inconsistent with FERC's Order No. 681 requirement that long-term firm transmission rights be available to support long-term power supply commitments.

Flexible Term Lengths for LT CRRs - - The Six Cities also support further consideration and analysis of flexible term lengths for LT CRRs as part of this stakeholder process.

Submitted by

Bonnie S. Blair
Thompson Coburn LLP
1909 K Street N.W.
Suite 600
Washington, D.C. 20006-1167
bblair@thompsoncoburn.com
202-585-6905

Attorney for the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California