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Issues Paper

**The CRR Year 2 Release  
Process  
and  
Other CRR Issues**

March 25, 2008

# The CRR Year 2 Release Process and Other CRR Issues

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## 1. Introduction

This paper initiates a stakeholder process to:

- 1) develop policy for new tariff language related to the conduct of the annual CRR release process for Year 2 (i.e., calendar 2009) in light of the delay in MRTU start-up. This CRR Year 2 process should begin in summer 2008 so that the annual allocation and auction will be completed before these CRRs become effective starting on January 1, 2009;<sup>1</sup>
- 2) examine miscellaneous issues related to the MW granularity of CRRs, the rules for managing transmission outages that may impact CRRs and the monthly CRR eligibility for certain LSEs who don't have available load forecasts; and
- 3) gain stakeholder input on certain CRR implementation issues.

**A separate paper examining possible *CRR Credit Enhancements* is posted and will be reviewed by stakeholders concurrently within this process.**

Some of the CRR-related policies identified for resolution within this process should be implemented as part of or prior to the CRR Year 2 release process,<sup>2</sup> which will likely begin for participants during the summer of 2008. Thus, the driving force for the timing of this stakeholder process is for the CAISO to have tariff authority in place by the end of July for those items that require a FERC-approved tariff change, which in turn requires these issues to be presented for Board of Governors approval in May, submitted for FERC approval shortly thereafter and then implemented as part of the CRR Year 2 annual allocation and auction processes. Other issues to be discussed in this effort do not require a Tariff change, but nonetheless require expedient treatment within this stakeholder process as they need to be resolved for the first CRR Monthly release process, which will begin roughly 60 days prior to the announced start-up date for MRTU.

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<sup>1</sup> The MRTU Tariff defines CRR Year One to be "The first period of time for which the CAISO conducts an annual CRR Allocation ...", which was the period April through December 2008 based on the expectation that MRTU start-up would occur on April 1, 2008.

Similarly, CRR Year Two is defined to be: "The second period of time for which the CAISO conducts an annual CRR Allocation ...", which will be calendar 2009 consistent with the end-state CRR process design of releasing Seasonal and Long Term CRRs on a calendar year basis.

At the same time, Section 36.8.1 of the MRTU Tariff establishes several distinctions for the CRR Year One allocation, compared to the allocation process for subsequent years. Therefore, in order to conform CRR Year Two to calendar 2009, the CAISO proposes to allocate CRRs for a portion of 2009 under the "CRR Year One" rules and for the remainder of 2009 under the "Beyond CRR Year One" rules per Section 36.8.3.5.

The details of this differential treatment of the seasons of 2009 comprise a primary topic of the present Issues Paper and stakeholder process.

<sup>2</sup> The Year 2 annual release process (for seasonal CRRs effective in 2009) is expected to begin in summer 2008. The draft timeline for this annual process is listed in Section 3 of this paper and will be reviewed as part of this stakeholder process.

Although a definite start-up date has not been determined yet, the CAISO will consider and seek flexibility in this CRR policy development to accommodate whatever month in 2008 the LMP markets begin and CRRs become effective. In the unlikely event that MRTU start-up does not occur in 2008, the CAISO proposes to initiate a new stakeholder meeting to determine the best course to follow for CRRs.

This policy development is not directly related to the market enhancements or timeline for the “**Market Release 1A**” package that is expected to be implemented within the year after MRTU start-up. The most recent *Market Initiatives Roadmap* does include one CRR item – the MW granularity for CRRs – which will be incorporated within this stakeholder process leading to MRTU tariff changes. Other CRR issues that are in the *Roadmap* are listed in the appendix of this paper as a guide for the direction of potential future initiatives.

## 2. Proposed Timetable for this Stakeholder Process

March 25	CAISO posts <b>Issues Papers</b> (this document as well as a separately posted paper on CRR Credit Policy Enhancements.)
April 1	Initial Stakeholder Meeting (10:00 am-5:00 pm @ CAISO’s North and South Lake Tahoe Room)
April 8	Initial Stakeholder written comments due to <a href="mailto:CRRComments@caiso.com">CRRComments@caiso.com</a>
April 14	CAISO posts <b>Straw Proposal</b> for policy changes
April 21	Stakeholder Conference Call
April 28	Stakeholder written comments due to <a href="mailto:CRRComments@caiso.com">CRRComments@caiso.com</a>
April 30	CAISO posts <b>Final Proposal</b> for policy changes
May 7	Final Stakeholder Conference Call
May 21-22, 2008	Presentation to CAISO Board of Governors
Late May	Filing to FERC on CRR Issues

Additional dates will be provided later for any required tariff changes that grow out of this process.

### 3. Proposed Key Dates for the CRR Year 2 Release Process

The CAISO's CRR team has identified the following key dates for the series of interactions between the CAISO and market participants involved in the next annual release of CRRs.

This process would allocate and auction seasonal and LT-CRRs that would be effective in the four seasons of calendar 2009.

The CAISO welcomes input on these dates and will notify market participants if this schedule changes.

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## 2009 Annual CRR Allocation and Auction Schedule

The 2009 Annual CRR Allocation begins on August 8, 2008 and ends on October 29, 2008. The annual allocation consists of five parts:

- Historical Load Submittal Window opens at 0100 on August 8, 2008 and closes at 1700 on August 14, 2008.
- The Priority Nomination Tier nomination window opens at 0100 on September 3, 2008 and closes at 1700 on September 5, 2008. Results of the Priority Nomination Tier will be posted by 1700 on September 12, 2008
- The Tier 2 nomination window opens at 0100 on September 18, 2008 and closes at 1700 on September 22, 2008. Results of Tier 2 will be posted by 1700 on September 29, 2008.
- The Tier Long Term nomination window opens at 0100 on October 7, 2008 and closes at 1700 on October 10, 2008. Results of Tier Long Term will be posted by 1700 on October 17, 2008.
- The Tier 3 nomination window opens at 0100 on October 22, 2008 and closes at 1700 on October 24, 2008. Results of Tier 3 will be posted by 1700 on October 31, 2008.

The 2009 Annual CRR Auction begins on November 7, 2008 and ends on November 18, 2008:

- The auction bidding window opens at 0100 on November 7, 2008 and closes at 1700 on November 11, 2008. The results of the annual auction will be posted by 1700 on November 18, 2008.

#### 4. ISSUE: The CRR Year 2 Release Process

***At this time, the CAISO anticipates that the items discussed in this section will require Tariff changes.***

The following sub-issues related to the CRR Year 2 process require stakeholder discussion and policy development:

##### **A. CRR Source Verification for Quarter 1 (Winter Season) 2009**

The current MRTU tariff provides for CRR source verification in conjunction with CRR allocation to LSEs serving internal load only for CRR Year 1. When the CAISO conducted the first annual CRR release process (for 2008), it was assumed that MRTU would start on April 1, 2008. The CAISO therefore released CRRs only for Seasons 2, 3 and 4, and indicated to participants that in the second annual allocation process (for 2009) Season 1 would be treated as a “Year 1” season and would be subject to source verification.

The reference period for verification of sources during Seasons 2, 3 and 4 of CRR Year One was the calendar year 2006. A key result of this stakeholder process will be to determine the appropriate historical reference period for CRR source verification for Season 1 of 2009.

To be consistent with the purpose and established policy for CRR source verification, whatever period of time is established as the basis for Season 1 source verification should be in the recent past, and not forward-looking.

- One option is to continue to use this 2006 period as the basis for source verification for the allocation of CRRs effective in the first quarter of 2009. This would be consistent with the practice established for the other three quarters, and may be easiest for market participants who have already documented their potential CRR sources for all of 2006.
- The CAISO also would consider a more recent period – such as Season 1 of calendar year 2007 – as the basis for verifying sources for Season 1 CRRs. A more recent period may offer a more precise congestion hedge for some entities because the Season 1 CRRs that would be allocated may more closely match the actual scheduling practices of entities, compared to a more distant reference year. The trade-off is that market participants would have to document contracts and certify other verification documents for a period in a different year, which may be a significant administrative burden.

##### **B. Re-do Source Verification versus Renewal for Quarters 2 and 3 in 2009<sup>3</sup>**

A second key result of this stakeholder process will be to determine whether to treat Seasons 2 and 3 of 2009 as “Year 1” or “Year 2” seasons. This question arises because CRRs were released for Seasons 2, 3 and 4 of 2008, and if we assume for the moment that MRTU will start-up on October 1, then the CRRs for Seasons 2 and 3 will not have been in

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<sup>3</sup> For discussion purposes this sub-section assumes that the MRTU markets will start up on October 1, 2008. As of the date of this Issues Paper, however, the CAISO has not yet determined the actual MRTU start-up date.

effect during actual MRTU market operation. This raises the question in the CRR release for 2009 whether to treat Seasons 2 and 3 as “Year 2” seasons and allow the CRRs for 2008 to be renewed, or to treat these seasons as “Year 1” seasons and require source verification. If the latter option is selected, it will also be necessary to specify the historical reference period for the source verification.<sup>4</sup>

- Requiring source verification again for Seasons 2 and 3 would erase the previous efforts by market participants and the CAISO to verify sources, but it may be worth the trouble to get a more recent historical reference period, such as the year 2007.
- Accepting the source verification that has already been done for Seasons 2 and 3 would require no further documentation of contracts or other administrative duties by market participants and the CAISO. Moreover, market participants could look forward to utilizing the PNP in CRR Year 2 for CRRs that were source verified in CRR Year One. While the CAISO clearly prefers this simple approach that avoids the significant amount of work by all parties to verify CRR nominations, the CAISO welcomes feedback from all market participants regarding whether it may be preferable to re-do source verification for the two CRR seasons.

### **C. Priority Nomination Process (PNP) available for Quarter 4 in 2009**

Under the assumption of this sub-section that MRTU starts up in the last quarter of 2008, Season 4 CRRs that were previously source-verified will become effective for all or part of their three-month duration. The CAISO thus confirms that the Priority Nomination Process (PNP) would be available in CRR Year 2 for the Q4 seasonal CRRs that were awarded in Year 1.

### **D. Treatment of Long-Term CRRs**

LT-CRRs that were awarded in the Year One process may be impacted by the unwinding of previously released seasonal CRRs (e.g., for Q2 and Q3 under the working assumption of an October 1 start-up of the MRTU markets). There are a couple issues to consider.

First, because these Q2 and Q3 LT-CRRs would not be effective during 2008 under an October 1 start-up, the total duration of these LT-CRRs would be reduced to nine rather than ten years. The CAISO has no proposal to address this matter, and points out that LT-CRRs with a full ten-year duration will be available in the Year 2 process.

Second, the staggered increase in Long Term CRR availability (see MRTU Tariff sections 36.8.3.1.3.1 and 36.8.3.5.2.1) would apply differently to the four seasons of 2009, with Q1 treated under the CRR Year One rules and Q2-Q4 likely being treated under the Beyond CRR Year One rules.

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<sup>4</sup> It is worth noting in this context that FERC’s July 6, 2007 Order [*Paragraph 100*] encouraged the CAISO to consider implementing some form of source verification process in Year 2 and beyond. The Order can be found on the CAISO website located at: <http://www.caiso.com/1c13/1c13eeb7ad70.doc>

## 5. ISSUE: Increased MW Granularity of CRR Tracking

***At this time, the CAISO anticipates that the item discussed in this section will require a Tariff change.***

As a result of the CRR design process leading up to the CAISO's February 2006 MRTU Tariff filing, it was decided to establish 0.1 MW as the minimum denomination of CRRs to be tracked in the CRR system. The CRR software systems were developed and configured to reflect this decision. The 0.1 MW threshold does not affect the CRR optimization algorithm, which carries sufficient decimal places to ensure accuracy in performing its calculations, but it does mean that any CRR quantities less than 0.05 MW that result from the optimization will be rounded to zero for purposes of recording and tracking CRR holdings by CRR Holders (and quantities less than 0.1 MW but not less than 0.05 MW will be rounded to 0.1 MW).

Subsequent to the MRTU Tariff filing, the CAISO and stakeholders discussed further details related to (1) CRR transfers for load migration and (2) disaggregation of CRR nominations sourced at Trading Hubs into their constituent PNodes for purposes of CRR allocation. In those discussions it was recognized that these two processes could result in substantial quantities of small denomination CRRs that would be rounded to zero, and that the problem would be more severe the smaller the initial MW denomination.

Thus, for example, a 10 MW CRR nomination sourced at a Trading Hub would have a larger proportional share rounded to zero as a result of the disaggregation process than would a 100 MW CRR nomination. By this time, however, it was too late to revise the 0.1 MW CRR granularity threshold in the CRR systems in time to start the CRR Year 1 release process, so the CAISO agreed to increase the granularity of CRR tracking in time for the CRR Year 2 annual release process for 2009, which will start in summer 2008.

There is no question at this time that the CRR granularity threshold will be reduced in time for the summer 2008 CRR process. The question for now is to determine the value of the CRR granularity threshold to be implemented by summer. It is important to note that the CRR software vendor is making the threshold value configurable, so that the value selected for the summer 2008 CRR process could be modified again at a later time if necessary. At the same time, the 0.1 MW threshold is specified in the MRTU Tariff (see Section 36.3.1), so that this change will need to be included in the CAISO's May CRR tariff filing.

In considering the preferred or optimal value for the threshold, the CAISO notes that there is a trade-off between greater precision in tracking very small CRR magnitudes, versus greater volume of computations associated with tracking zillions of teeny CRRs in the SRS and using them to calculate credit requirements and CRR settlements. Thus there will be some level beyond which any greater precision gained is outweighed by the increased computational and administrative complexity.

Looking at results from the Year 1 CRR Allocation process, the CAISO picked a "worst case" example as an illustration. In this instance a 15 MW CRR was allocated with source at the NP15 Trading Hub and sink at one of the Default LAPs. The example may be considered "worst case" both because the NP15 has the highest degree of disaggregation (largest quantity of constituent PNodes) and because the 15 MW quantity is relatively small, and therefore would suffer a large loss due to rounding to zero.



The results were:

Granularity Level (MW)	Allocated CRR (MW)	Nominated CRR (MW)	%
0.1	7.2	15	48.0%
0.01	13.73	15	91.5%
0.001	14.99	15	99.9%

The CAISO is seeking stakeholder comments on the preferred granularity threshold to implement for the Year 2 CRR release process.

## 6. ISSUE: The “30-day Rule” for Scheduling Transmission Outages

*The items discussed in this section will require Tariff language to comply with FERC’s March 20 order.*

The CAISO will review and seek stakeholder input on a proposed change to the requirement for PTOs to notify the CAISO about planned outages of Significant Facilities at least 30 days prior to the start of the calendar month for which the outage is planned to begin. This rule is intended to provide the CAISO good data on planned outages far enough in advance to allow the CAISO to reflect them in the network model used for releasing Monthly CRRs and thereby minimize impacts to the revenue adequacy of CRRs. This section also discusses the process by which PTOs may request and receive CAISO approval for exemptions of specific facilities from the 30-day rule, and the process by which the CAISO will evaluate the potential need for any changes to the 30-day rule based on actual operating experience under LMP.

### A. Proposed modification to the 30-day rule outage scheduling requirements

The 30-day rule outage scheduling requirements as described in Section 4.2.1.1 of the ***Business Practice Manual for Outage Management***<sup>5</sup> lists three criteria characterizing the significant facilities for which planned outages must be scheduled with the CAISO at least 30-days prior to the month in which they are planned to occur. The BPM also indicates, however, that outages to such facilities that are planned to be initiated and completed within a single calendar day are exempt from the 30-day requirement.

After careful consideration of a modification to the latter provision proposed by the Participating Transmission Owners, the CAISO believes it is appropriate to modify the provision such that outages to such facilities that are planned to be initiated and completed within a 24-hour period are exempt from the 30-day requirement. This allows planned outages that are scheduled to begin, for example, in the evening of one day and be completed by the morning of the next day, as long as the total duration of the outage is no greater than 24 hours, to be exempt from the 30-day scheduling requirement.

The CAISO believes that this change should have no adverse impact on CRR revenue adequacy, because the total duration of an exempt outage is not allowed to be any greater

<sup>5</sup> Version 3 of the ***BPM for Outage Management*** was last revised November 15, 2007.

under the revised provision than it could be under the original provision. At the same time, the revised provision will allow greater flexibility to PTOs to reduce the number of planned outages that must be scheduled under the 30-day rule.

The CAISO seeks stakeholder comments on this proposed change. Unless specific concerns are identified that warrant reconsideration of this proposed change, the CAISO intends to implement the change in the next revision of the ***BPM for Outage Management***.

## **B. Process for requesting exemptions from the 30-day requirement**

Section 10.3.1 of the ***BPM for Congestion Revenue Rights*** provides additional criteria by which significant facilities in the categories covered by the 30-day rule may be granted exemptions. This BPM section requires the PTO requesting the exemption to demonstrate that the nominated facilities satisfy the exemption criteria. Some of the PTOs have argued that the exemption criteria (1) are conservative, i.e., would allow very few nominated facilities to be granted exemptions, (2) rely on the theoretical basis of revenue adequacy rather than empirical assessment, and (3) would require technical analysis that the PTOs are not able to perform.

The purpose of the discussion in this sub-section is to clarify for market participants the reasons why the CAISO has taken a conservative approach, and to acknowledge that because of this conservative approach the CAISO will not likely be in a position to grant 30-day rule exemptions for the first year of MRTU operation.

Regarding argument (1) the CAISO acknowledges that the exemption criteria are conservative, but points out that such conservatism is appropriate in light of the CAISO's responsibility with respect to CRR revenue adequacy and the absence of actual operating experience under LMP. The CAISO is responsible to manage the release of CRRs so as to balance the competing objectives of releasing as many CRRs to market participants as possible while minimizing the risk of revenue inadequacy. Because the major cause of CRR revenue shortfalls is reduction in grid transfer capacity when transmission outages and derates occur, the CAISO depends on the ability to model expected outages in the network model used for releasing Monthly CRRs as its primary tool for achieving the optimal release of CRRs.

In addition, under the FERC-approved provision that all CRRs must be fully funded, the impact of any CRR revenue inadequacy at the end of each month will be borne by all Measured Demand. The CAISO therefore believes it is appropriate to minimize the risk to Measured Demand by starting the MRTU markets with a conservative approach to 30-day rule exemptions, until empirical data is accumulated from actual LMP market experience that enables the CAISO to assess the effectiveness of this approach to modeling transmission outages in the network model for Monthly CRRs and consider modifications to the exemption requirements.

The CAISO's response to argument (2) is closely related to the response to argument (1). The theoretical basis for the exemption criteria is the well-known "Revenue Adequacy Theorem" demonstrated by Professor William Hogan in the early 1990s. That theorem states that if a set of financial transmission rights satisfies simultaneous feasibility on a given grid configuration (topology, line ratings, etc.), then the LMP energy market that clears on the same configuration will always generate sufficient congestion revenues to fully pay all the transmission rights. This result depends only on the grid configuration, and is independent of the specific pattern of load and generation as long as all energy schedules are simultaneously feasible.

On the other hand, if there are changes to the grid topology or reductions in line ratings (due to transmission outages or derates, for example), then there is no guarantee that congestion revenues will be sufficient. The 30-day exemption criteria essentially reflect the requirements of

this theorem. As noted in the previous paragraph, until there is sufficient operating data from the LMP markets the CAISO believes that the requirements of the revenue adequacy theorem are a reasonable and reliable – though admittedly conservative – standard for approving 30-day rule exemptions.

Regarding argument (3), the PTOs have proposed that the rules be modified so that the PTOs may nominate facilities for which they seek exemptions, and the CAISO rather than the PTOs would perform the necessary analyses to determine if the exemptions can be granted. The CAISO is not able to assess the capabilities of the PTOs to perform the analyses needed to demonstrate that the exemption criteria are met, but acknowledges that the CAISO would still have to rely on the theoretical basis provided by the revenue adequacy theorem until there is sufficient data from operating experience under LMP to provide a reliable empirical basis for granting 30-day rule exemptions.

In conclusion, the CAISO acknowledges that the 30-day rule exemption criteria are conservative and that it is probable that few if any exemptions will be granted for the first year of MRTU. The CAISO believes, however, that its conservative approach is warranted and reasonable given the CAISO's responsibility to balance the two objectives of maximizing the release of CRRs while minimizing the risk of revenue inadequacy, which would be allocated to all Measured Demand.

### **C. Approach for assessing potential changes to the 30-day requirements**

Given the need to use a conservative, theoretical basis for exemption criteria for MRTU start-up, the CAISO has committed to assessing the effectiveness of both the 30-day requirements and its approach to modeling outages in the Monthly CRR process as actual experience with the LMP markets is gained.

The CRR Balancing Account will be cleared at the end of each month, and thus will provide a simple indicator of CRR revenue adequacy on a monthly basis. If the end-of-month balance (net of CRR Auction revenues) is negative, it indicates CRR revenue inadequacy on average over the hours of the month, whereas if the balance is positive, it indicates that more CRRs could have been released without adversely impacting CRR revenue adequacy.

In addition, actual LMP values will be generated for each hour in the IFM and each RT dispatch interval, and these LMP values will reflect the actual grid conditions for those hours and RT intervals. These LMPs and the corresponding grid conditions and patterns of load and generation will provide a data base for estimating the impact of different transmission outages on revenue adequacy.

Although the CAISO is not prepared at this time to describe a methodological approach in any greater detail, the CAISO reaffirms its commitment to determine, after assessing twelve months of market data and consulting with stakeholders, whether revisions to the 30-day requirements for scheduling transmission outages are appropriate. The CAISO will develop and document a more detailed proposed methodology for conducting the required analysis for discussion with stakeholders at a later date.

## 7. ISSUE: Monthly CRR Eligibility for LSEs Without Verifiable Load Forecasts

*At this time, the CAISO anticipates that the item discussed in this section will require a Tariff change.*

### Summary

The MRTU Tariff requires LSEs that are eligible for allocation of Monthly CRRs to provide monthly load forecast data to the CAISO as the basis for determining the maximum quantity each such LSE may be allocated. The Tariff further provides that the CAISO will use load forecast data which these LSEs have provided to state regulatory agencies as a basis to validate and if necessary adjust their CRR eligibility for consistency (see tariff sections 36.8.2.2 and 36.8.6). The CAISO has identified situations where an LSE may be eligible for Monthly CRR allocation but cannot provide load forecast data which the CAISO would be able to validate against comparable data provided to a state regulatory agency. The CAISO therefore sees the need for new provisions for determining the Monthly CRR eligibility for such entities based on their historical load data. This section describes three alternatives to deal with this scenario.

### Background

The CAISO allocates CRRs to Load Serving Entities (LSEs) internal to CAISO area, including Metered Subsystems (MSSs), and to qualified Out-of-control Area LSE (OCALSEs) through annual and monthly processes. The eligibility for allocation of CRRs in the annual process is quantified by a Seasonal Load Metric for each season, time of use and sink, which is calculated for standard quarter terms based on historical load data of the previous calendar year. For monthly allocations, eligible entities will submit its load forecast to the CAISO. This forecast will be checked for consistency and adjusted against the forecast that is submitted for Resource Adequacy (RA) purposes to the California Energy Commission (CEC) as described in the **BPM for Congestion Revenue Rights**. The adjusted load forecast will be then used to compute a Monthly Load Metric for each time of use and eligible sink.

The established CAISO monthly process for CRRs (explained in Section 7.2.2 of the **BPM for Congestion Revenue Rights**) only considers scenarios where eligible entities submit load forecast data for conforming and non-conforming loads, which can be verified against CEC load data. Current BPM provisions do not include an approach for entities that do not have such an independent load forecast and, hence, their load data cannot be verified.

### Potential Solution Approaches

The following options would apply only to those entities for which the CEC has no load forecast data available for the CAISO to verify the entity's CRR allocation eligibility against in the monthly CRR process. The CAISO is proposing to rely on historical data using one of the following methods:

- (a) the last five-year load data. To get a steady and less volatile monthly load metric, the load data over five years would be used to calculate a load metric for each month and time of use (TOU), and then the five load metrics for each month/TOU would be averaged and the result used to determine monthly CRR eligibility; or
- (b) load data from the immediate previous month to compute a monthly load metric for each TOU; or

- (c) load data from the same relevant month of the previous year to compute a monthly load metric for each TOU.

The CAISO suggests two ways to implement these options.

- One alternative is to take one of these three options as a standard for all eligible entities of this category. Thus, all eligible entities of this group will adhere to it in all monthly CRR allocation processes.
- A second alternative is to allow each eligible entity of this category to choose from options a, b and c. The CAISO would propose to make this a one-time choice in order to avoid gaming with their individual choices.<sup>6</sup> Also, each eligible entity will let the CAISO know its preferred option before the submission of the load data of the first monthly process, and such an option will remain valid thereafter.

The CAISO is seeking discussion and written input from stakeholders on these options.

#### Scope of the Approach

Each eligible entity of this new category would submit its historical load following the same procedures and timeline applied to entities with verifiable load forecast data. However, the historical load will be used instead to calculate the load metric for each time of use and eligible sink.

This proposal to deal with eligible entities that do not have verifiable forecast data only applies to the monthly CRR process and would not alter any tariff or BPM provisions already established for the annual CRR processes. Furthermore, provisions for this special case do not impact the procedures already in place for the monthly process for eligible entities with verifiable load forecast data.

After stakeholder input is considered and the most appropriate approach is determined, the CAISO anticipates adding some language to one or both of the tariff sections noted above and adding a new section to the BPM of CRRs describing the final provisions that will be applied to eligible entities with no verifiable load forecast data.

## **8. Next Steps**

The CAISO requests stakeholder input on all the CRR-related issues raised within this paper. Written comments should be sent to [CRRComments@caiso.com](mailto:CRRComments@caiso.com) by close of business on April 8. The CAISO will post a suggested template for stakeholder comments after the April 1 stakeholder meeting.

The CAISO anticipates posting on April 14<sup>th</sup> a Straw Proposal for the CRR policy issues raised within this paper, and then conducting two additional stakeholder conference calls – tentatively planned for April 21 and May 7 -- with the aim to develop the proposed tariff changes that will be presented to the CAISO Board of Governors.

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<sup>6</sup> If eligible entities could choose from *a*, *b*, and *c* for every monthly process, entities would have the flexibility to decide what the most advantageous option is for every month.

## 9. Appendix: Other CRR Issues Not Within This Stakeholder Process

*The following CRR-related issues are listed within the Market Initiatives Roadmap or identified within other documents, and therefore may be discussed briefly during this stakeholder effort. However, in order to limit the scope of issues to those necessary for CRR Year 2, the CAISO does not expect extended stakeholder briefings or policy development within this initiative at the present time.*

*These CRR issues are identified below as a guide for discussions in other forums or review within a future stakeholder process:*

- a) **Methodology for CRR Transfers from Load Migration** – The CRR team is currently developing the methodology for converting data on load transfers into transfers of CRRs between LSEs. This stakeholder process may include brief public discussion or summary of this detailed process, which should reside within the CRR BPM.
- b) **CRRs Associated with Integrated Balancing Authority Areas (IBAA)** – The CAISO currently intends to address, within a filing to FERC shortly after the May 21-22, 2008 Board meeting, the fundamental issues related to the release and settlement of CRRs that might be impacted by modeling changes associated with adjacent Balancing Authority Areas.
- c) **Sale of CRRs in the CRR Auctions** – FERC has directed the CAISO to develop functionality and file tariff language (by Market Release 2) so that a party can offer for sale in a CRR auction CRRs that were previously released in an auction or allocation process. Initially parties can either sell such CRRs through bilateral transactions registered in the Secondary Registration System, or bid into the auction to purchase a CRR in the opposite direction of the one they wish to sell.
- d) **CRR Optimization Algorithm:**
  - **Use of “Weighted Least Squares” Algorithm** -- The CAISO may discuss (in a future stakeholder engagement) changing the way that competing CRR nominations are allocated, so that the transfer capacity on a binding transmission constraint would be shared with each CRR nomination that has some effectiveness along that constraint. This approach may be more equitable than the current algorithm that maximizes the total amount of CRRs allocated by reducing the CRR nomination that has the highest effectiveness in relieving the constraint.
  - **Multi-period Optimization Algorithm for LT-CRRs** – The CAISO will seek to defer a compliance filing that describes the functionality and testing for a more optimal allocation of LT-CRRs that reflects grid capacity for each year, instead of treating the entire 10-year time horizon as a single time period. The CAISO will seek to build this optimization algorithm in time for the CRR Year 3 release process.
- e) **Software for Bundling Individual PNode CRRs into Trading Hub CRRs** – FERC’s July 6, 2007 Order directed the CAISO to consider whether to develop software to assist LSEs in the trading of Trading Hub CRRs by “rebundling” individual PNode CRRs to reconstitute a Trading Hub CRR. The CAISO is required to make a compliance filing within six months after the start of MRTU that explains whether the disaggregation method remains appropriate.

- f) Flexible Term Lengths of LT-CRRs** – The July 6, 2007 Order also encourages the CAISO to consider future flexibility to allow LT-CRRs with terms longer or shorter than ten years, or annual CRRs with guaranteed renewal rights up to ten years.
- g) Long-Term CRR Auction** – FERC's July 6, 2007 Order encourages the CAISO to initiate a stakeholder process that results in tariff language to implement an auction for residual LT-CRRs in Market Release 2.
- h) Release of CRR Options** – FERC's July 6, 2007 Order also encourages the CAISO to continue exploring the feasibility for releasing option CRRs.