



California ISO
Your Link to Power

White Paper

**Release of 2009 CRRs
and the start-up of the
MRTU Markets**

August 8, 2008

Release of 2009 CRRs and the start-up of the MRTU Markets

Prepared for Discussion at a Stakeholder Conference Call on August 14

1 Introduction

This paper continues an on-going discussion with stakeholders regarding the release of Congestion Revenue Rights (CRRs) that would be effective in 2009. This current dialogue is intended to review the policy direction and timing for the allocation and auction of CRRs based upon an MRTU start-up that would likely occur in early 2009.

This discussion on the release of 2009 CRRs follows the CAISO's August 5 Market Notice¹, which confirmed that MRTU launch would not occur in 2008 and that the readiness of the CAISO and market participants for setting a new MRTU "Go Live" date would be discussed at the September 9 meeting of the CAISO Board of Governors.

The CAISO previously committed to re-initiating this stakeholder process should the start-up of the MRTU markets occur after January 1, 2009. Recognizing that a specific "Go Live" date has not yet been identified but that considerable efforts by the CAISO and market participants will be devoted toward starting up within the first quarter of 2009, the CAISO is seeking stakeholder input now on the release of 2009 CRRs. This input is especially timely because LSE nominations for the initial tier in the allocation of 2009 seasonal CRRs are scheduled to begin on September 3, 2008, and the allocation process for all seasonal and LT-CRRs that would be effective in 2009 is scheduled to be completed by October 31.

To provide structure and focus for this discussion, the CAISO offers an initial proposal within this paper to deal with the delay in start-up and the release of CRRs. Basically, the CAISO suggests maintaining CRR allocation and auction under the current schedule and Tariff rules, except for adjusting the terms of CRRs in the first quarter to be effective on February 1, 2009. This proposal would sync up the initial terms of allocated and auctioned CRRs with the earliest expected opening of the LMP markets, while also defining a process for adjusting the terms for these CRRs should the actual "Go Live" date extend beyond February 2009.

Stakeholders are encouraged to raise questions and articulate any concerns they may have regarding this plan. The initial opportunity for such input will occur during a conference call on August 14 as well as written comments that stakeholders are invited to submit.

2 Background and Context

Key Features of the CRR Release Process

The currently established CRR release process – developed through considerable stakeholder input over several years – permits up to 75% of the grid's transfer capacity in the network model to be allocated annually first to qualifying LSEs and then auctioned to any credit-worthy market participant. Monthly CRRs covering up to 100% of the grid's capacity, adjusted for anticipated

¹ This market notice is located at: <http://www.caiso.com/201a/201a816015e0.html>.

transmission outages and derates, are released twelve times a year through a similar allocation process, followed by an auction for the remaining capacity.

The CAISO filed initial MRTU tariff language with FERC in February 2006, specifying how seasonal CRRs would be allocated annually in three tiers so that market participants could receive the results of the latest tier prior to submitting their nominations for the next tier. This feature is meant to maximize the choices available to LSEs participating in the allocation and enable them to prioritize among their possible CRR nominations, as well as maximize the release of CRRs (subject to simultaneous feasibility).

Another foundational element embedded in the MRTU Tariff is the “source verification” process that the CAISO will utilize in CRR Year One to create an initial CRR allocation to LSEs based on their demonstrated prior use of specific supply sources. By demonstrating previous contractual arrangements or generation ownership, LSEs get priority to nominate CRRs that hedge congestion costs from these established supply sources to their load. After the first year in which CRRs are in effect, the CAISO will no longer verify sources for CRRs to serve load within the CAISO Balancing Authority Area, but LSEs will be able to utilize a Priority Nomination Process for CRRs that had been allocated in the previous year.² Thus, the allocation rules for CRR Year One are different than the allocation rules for CRR Year Two.

In a series of orders dating from September 2006 -- including the most recent one issued on July 28, 2008 -- FERC has approved these key features of the CRR release process, along with the addition of a Long-Term CRR tier within the annual allocation process.

2008 CRR Release Process and Unwinding

In late 2007 the CAISO conducted the initial CRR release process, which included allocating seasonal and LT-CRRs under the CRR Year One rules and auctioning the remaining seasonal CRRs. Based on the assumption that the MRTU markets would begin in April 2008, seasonal CRRs were released only for the second, third and fourth quarters of 2008. (No monthly CRRs have been released yet; the first monthly CRR release process will occur approximately two months before the established “Go Live” date.)

In early 2008, recognizing that MRTU start-up would be delayed beyond April 2008, the CAISO filed a “CRR Contingency Plan” with FERC to allow the CAISO to reduce the terms of CRRs that had been allocated and provide refunds for CRRs awarded by auction for the seasons in 2008 when the LMP markets were not operating. FERC conditionally accepted this plan on March 31, 2008, and the CAISO has unwound CRRs for the second and third quarters of 2008. On August 6, 2008, the CAISO announced the schedule for unwinding CRRs for the fourth quarter of 2008. This unwinding will occur in like manner to the previous unwinding as detailed in the market notice (which is located at: <http://www.caiso.com/1f5f/1f5fbb6415690.html>).

2009 CRR Release Process

In the spring of 2008 the CAISO conducted a stakeholder process to develop new tariff language dealing with the release of CRRs that would be effective in 2009, among other things.

² LSEs eligible for allocation of CRRs associated with serving load outside the CAISO Balancing Authority Area will be subject to continued annual source verification beyond CRR Year One, and will be able to use the Priority Nomination Process, subject to such source verification, to nominate such CRRs for annual renewal.

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For the purposes of this discussion, the most significant results of that stakeholder process were the consensus to:

- 1) treat the January – March 2009 season under CRR Year One rules, and treat seasons two, three and four (covering April through December, 2009) under CRR Year 2 rules; and
- 2) update the historical reference period for source verification in the first season of 2009. The new reference period is the first three months of 2007, which is different from the 2006 period required for verifying CRR source nominations in the previous three quarters of CRR Year One.

On May 30, 2008, the CAISO filed a proposal at FERC to incorporate these policies into the MRTU Tariff.

- The CAISO proposed to redefine CRR Year One as the second, third and fourth quarters of calendar year 2008 and the first quarter of calendar year 2009.
- The CAISO proposed to use January through March 2007 as the historical reference period for source verification of CRR nominations in the first quarter of 2009.
- The CAISO also proposed that CRR Year Two be defined as quarters 2-4 of 2009 and the first quarter of 2010.

FERC accepted this proposal on July 29, 2008.

Current Schedule for Allocation and Auction

The schedule for the 2009 annual CRR release process is posted here:
<http://www.caiso.com/1faa/1faaa71615900.pdf>

Under this schedule LSEs will be submitting historical load data between August 8 and August 14, and then submitting CRR nominations for the first tier beginning on September 3. Tier 2 follows, then the Long Term Tier, then Tier 3. The allocation will be completed by the end of October, and then the auction for seasonal CRRs effective in 2009 is scheduled to open on November 7, 2008, with the results being posted on November 19. Following the completion of the annual allocation and auction processes, the CAISO will conduct the two-tier allocation process and the auction for monthly CRRs for the first month of the MRTU markets, which for purposes of this document is assumed to be February, 2009.

This posted schedule defines the first tier in the allocation as the “Priority Nomination Tier” (PNT) because for quarters 2-4 of 2009, LSEs will be nominating CRRs within this first tier under the CRR Year 2 rules. The first quarter of 2009, however, is now defined under the MRTU tariff as part of CRR Year One, and thus LSEs should be submitting -- in this first and second tier -- only “source verified” nominations for seasonal CRRs that will be effective in the first quarter of 2009. It is important to note that in this distinction, what is important is not the order of the tiers in the allocation, but rather the *eligibility* for nominations within those tiers. Thus, LSEs should take care that their nominations for quarter 1 CRRs are submitted in accordance with the CRR Year One rules, and that nominations for CRRs effective in quarters 2-4 are submitted in accordance with the CRR Year 2 rules.

For Tier LT in CRR Year One, LSEs may nominate CRRs that were allocated in Tier 1 and Tier 2. In CRR Year 2, LSE may, in Tier LT, nominate CRRs that were allocated in the PNT. Thus, the posted schedule allows the outputs of either Tier 1 and 2 (Quarter 1) or the PNT to be submitted into Tier LT.

At this time the CAISO strongly recommends adhering to this schedule – as further explained in the next section -- in order to ensure a timely release of the CRRs that need to be in effect starting in early 2009.

3 Initial CAISO Recommendations

The CAISO offers the following initial preferences for a course of action in light of the delay in MRTU start-up beyond 2008.

CRR Release Schedule

- **At this time, the CAISO does not see an easy opportunity or strong reason to delay the CRR allocation process that has already been scheduled. The CAISO recommends adhering to the posted 2009 CRR Release schedule as much as possible. However, it may be possible to accommodate a one-week delay in the allocation process.**
 - For the rest of August, the CAISO is prepared to work with LSEs to identify their CRR eligibility.
 - The allocation process is a tiered approach whereby participants nominate based on their priorities, and the CAISO determines feasibility of all the nominations in each tier. This iterative nomination and clearing process – for three tiers allocating peak and non-peak seasonal CRRs through the end of 2009, plus a Long-Term CRR tier -- takes about eight weeks to complete. Once the allocation process is completed, the annual CRR auction process takes another two-to-three weeks.
 - The first monthly CRR allocation and auction process should be started approximately 60 days before the scheduled opening MRTU trade date.
 - Assuming the earliest possible “Go Live” date is February 1, then December 1, 2008 should be the start time for the first monthly process. Although this nominally allows two full months to allocate and auction monthly CRRs for February, in reality there is a holiday season which may cut the available time by a week and a half.
 - The CAISO must conclude the annual release process so that participants and the CAISO can incorporate the results of that process into the monthly CRR process.
 - The annual process is currently scheduled to end on November 19. Thus this MRTU delay may allow approximately eleven days of flexibility, of which two of the working days are Thanksgiving (November 27 and 28).
 - The CAISO may consider an accommodation that would delay the start of the annual process by one week, make up three days within the currently posted schedule and then end on November 21 (a Friday) instead of the 19th (a

Wednesday.) The CAISO invites stakeholder views and anticipates discussion of this possibility during the August 14 stakeholder conference call.

In summary:

- Considering the breadth of work and the time period required to perform the annual CRR release process – as well as the Thanksgiving and end-of-the year holiday seasons -- the CAISO does not see much room for delaying this CRR annual release process even with a Go-Live date that extends beyond 2008.
- Especially since the MRTU “Go Live” date may, at this time, be reasonably assumed to occur as early as February 1, 2009, the CAISO recommends adherence to the currently published schedule as much as possible. The CAISO encourages stakeholders to comment and discuss this recommendation.

Allocation of CRRs for 2009

- **The CAISO recommends allocating CRRs with terms that match the months for which the LMP markets are expected to operate. The CAISO recommends assuming that MRTU start-up will occur February 1, 2009, and thus the CRRs to be allocated for the first quarter of 2009 under the CRR Year One rules should be adjusted to have a term of two months.**
 - If the allocated CRRs have terms that begin February 1 and MRTU starts up on February 1, then no further changes are needed.
 - If the allocated CRRs have terms that begin February 1 but MRTU doesn't start up until March 1, the CAISO would prorate the holdings for this season to adjust the term by one month.
 - **Historical load:** LSEs are currently submitting data to the CAISO that demonstrates their historical load over the past 12 months. For CRRs with shortened terms, the CAISO will use only those months for which the CRRs will be in effect as the basis for calculating each LSE's Seasonal CRR Eligible Quantity. Thus, for the first quarter of 2009 the CAISO will determine each LSE's eligibility for CRRs based upon load from the previous February and March for the appropriate time-of-use period.
 - **Historical Reference Period:** Assuming a two month term for the first season of 2009, the CAISO recommends the historical reference period for source verification of these seasonal CRRs should be adjusted accordingly. Thus, the reference period would entail the two month period (February – March) of 2007 for verifying CRR sources of CRR nominations in this 2009 season. Although the source verification process has already been conducted for this 2009 season, the CAISO anticipates that shortening the reference period would have no significant impact on the CRR sources that have already been verified.
 - Should the MRTU “Go Live” date extend beyond the first quarter of 2009, the CAISO expects additional stakeholder consultations because at that point, an entire year of CRRs would have been released under the CRR Year One rules,

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including the “source verification” process that was utilized for 2008 quarters 2-4 and 2009 quarter 1, even though these seasonal CRRs would have never been effective. However, the CAISO does not anticipate this scenario is likely and therefore offers no recommendation at this time.

Auction of seasonal CRRs for 2009

- **The CAISO recommends auctioning CRRs with terms that match the months by which the LMP markets are expected to operate. The CAISO recommends assuming that MRTU start-up will occur February 1, 2009, and thus the CRRs to be auctioned for the first quarter of 2009 should be adjusted to have a term of two months.**
 - The auction for seasonal CRRs effective in 2009 (on whatever capacity is available after the allocation) is currently scheduled for November 2008. At that time the CAISO and market participants may have a definite “Go Live” date targeted, and therefore may adjust the terms of those CRRs accordingly.
 - If the auctioned CRRs have terms that begin February 1 and the MRTU markets begin on February 1, there will be no need for further action.
 - If the auctioned CRRs have terms that begin February 1 but MRTU is not operating until later months, the CAISO will pro-rate the terms accordingly and unwind the financial settlement of such CRRs if they have already been settled. This unwinding process would be exactly the same as the FERC-approved process that has been followed for unwinding the auctioned CRRs for 2008.

Firm Transmission Rights (FTRs)

- **By December, 2008, the CAISO will reassess the expectation for an MRTU start-up and any possible need for another FTR auction for 2009.**
 - The CAISO already offers FTRs as a tool for market participants to manage congestion on Inter-zonal Interfaces under the current market design. The current CAISO tariff requires the auctioning of FTRs over an annual period, and thus the FTRs have been released through the end of March 2009.
 - The CAISO does not anticipate a need to conduct another FTR auction for 2009 unless MRTU goes live after April 1. The CAISO will make another assessment in early December as three or four months are needed to set up and conduct the FTR auction.

Possibility of “Go Live” after March 31, 2009

- **Should the MRTU “Go Live” date extend beyond the first quarter of 2009, the CAISO will consult further with stakeholders.**

4 Next Steps

The CAISO will hold a stakeholder conference call on August 14th between noon and 1:30 pm (California time) to discuss this White Paper.

The CAISO requests stakeholder written comments on this White Paper and the discussion on August 14th. These comments should be submitted to CRRComments@caiso.com no later than August 21st.

The CAISO will consider further stakeholder engagements in the near future.