

**COMMENTS OF THE
ALLIANCE FOR RETAIL ENERGY MARKETS
ON THE CAISO's MARCH 4, 2011 ISSUE PAPER ON CONGESTION
REVENUE RIGHTS ENHANCEMENTS
Submitted to: 2011CRREnhancements@caiso.com.**

On March 4, 2011, the California Independent System Operator (CAISO) released the “2011 CRR Enhancements Issue Paper,” which proposes significant changes to the current process for allocating congestion revenue rights (CRRs) to load-serving entities (LSEs) and transferring CRRs associated with load migration. In addition, the issue paper includes a proposed approach for improving revenue adequacy, proposes tariff clarifications and seeks market participants input on the desirability of additional CRR auction functionality. The Alliance for Retail Energy Markets (AReM)¹ has reviewed the issue paper and discussed several elements of the proposal in detail with CAISO staff. Based on its understanding of the proposals to date, AReM does not support the proposed modifications to the CRR allocations, nor does it support the proposed changes for tracking CRRs for load migration purposes. As noted, below, AReM does support some of the other proposed changes. AReM presents its position on each element of the proposal below.

A. Proposed Changes to Current Process for Transferring CRRs Associated with Load Migration

The CAISO explains that the current process for managing the transfer of CRRs due to load migration has led to a significant proliferation of CRR pairs that must be

¹ AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

tracked, creating an administrative burden.² As a remedy, the CAISO proposes reducing the granularity of the CRRs that are tracked for load migration to 0.1 MW. In addition, the CAISO proposes to delete all of the CRRs with a value below 0.1 MW that are associated with the transferred load and convert them to a MW quantity, which would then be added to the Seasonal Eligible Quantity (SEQ) for that LSE's use in the monthly CRR process. AReM opposes this proposal because it significantly disadvantages the load-gaining LSE, as discussed below. Moreover, the deletion of all CRRs below 0.1 MW associated with the transferred load may completely eliminate access to congestion revenues for the smallest LSEs, most of which are electric service providers (ESPs). In other words, the predominant impact of this proposal likely falls disproportionately on the ESPs, which are gaining load from the investor-owned utilities (IOUs) now that retail competition has re-opened in California as of April 2010.

1. **Deletion of CRRs With Values Less Than 0.1 MW Significantly Impacts ESPs.**

Some ESPs have analyzed the proposal and found that 15-25% of the CRRs in their portfolios are under 0.1 MW. Obviously, changing the way these CRRs below 0.1 MW are treated has a significant affect on each ESP's ability to manage congestion. Moreover, the main reason for the original 0.001 MW tracking value was to *ensure* that *all* LSEs, no matter how small, received a proportional share of the CRRs held by the LSE losing load. Deleting the tracking of load-migration CRRs with values less than 0.1 MW will instead ensure that smaller LSEs will receive few or no CRRs in

² Issue paper, pp. 6-7.

the load migration process, greatly diminishing their ability to manage congestion, which would significantly disadvantage them compared to larger LSEs, such as the IOUs.

2. Converting Load-Migration CRRs To MWs Available In The Monthly Process Significantly Diminishes Their Value.

The CRRs acquired via the load migration process have significant value to the ESPs, because those CRRs, which are primarily obtained from the IOUs, are high-value CRRs that are not typically available in the monthly CRR allocation process. Moreover, the load-migration CRRs are then available for nomination in the Priority Nomination Process (PNP) during the annual CRR process for the following year. The CAISO's proposal to delete the load-migration CRRs below 0.1 MW will mean that the affected LSEs will no longer have those MWs available for nomination in the PNP. In addition, because many are high-value CRRs that are otherwise unavailable to ESPs (except through transfers due to load migration), the CAISO's approach would significantly disadvantage load-gaining LSEs, particularly the ESPs. Finally, providing additional MWs of SEQ may have little or no value, because only limited CRRs are available in the monthly allocation process in the first instance and ESPs have found that they are unlikely to be successful in obtaining CRRs of any quantity or value in that monthly allocation process.

3. Summary.

AReM objects to the CAISO's proposal to change the current process for transferring CRRs associated with load migration and respectfully requests that the CAISO abandon this new approach for the reasons outlined herein. AReM strongly supports continuing the existing load migration process, which tracks all load-migration

CRRs for each LSE and preserves those CRRs for nomination in the PNP in the following year's allocation process.

B. Replacing CRR Allocation With The Auction

The CAISO proposes to replace several Tiers of the annual CRR allocation process and the monthly CRR allocation process by converting each LSE's SEQ values for the affected Tiers to a congestion-weighted share of the dollar proceeds of the applicable auction. The CAISO would retain the current PNP and Long-Term Tier (Tier LT).³ AReM does not support the proposals to replace the allocation processes with auctions.

At present, ESPs obtain the majority of the CRRs in the annual allocation process. The proposal to replace Tier 2 or Tier 3 (or both) with uncertain auction proceeds is an unacceptable trade-off. In addition and as described above, the monthly CRR allocation process, with the CAISO's use of the Global Derate Factor, is already severely limited as a means of obtaining needed CRRs. However, replacing the monthly allocation with uncertain auction proceeds would further reduce the potential for LSEs to obtain the CRRs necessary to hedge congestion costs. Accordingly, AReM does not support this proposal. Moreover, the CAISO should avoid a piecemeal approach. If the CAISO would like to explore replacing the allocations with auctions, it should be prepared to work with market participants to determine whether there are associated benefits for that approach.

³ Issue paper, pp. 9-11.

C. Proposed Approach To Address Issues With Revenue Adequacy

The CAISO proposes to use historical hourly Operating Transfer Capability (OTC) levels for each intertie to select an “appropriate OTC level” at which to release CRRs in the Simultaneous Feasibility Test (SFT).⁴ The issue paper notes that one of the benefits of this approach, in addition to improved revenue adequacy, is the ability to significantly lower the value of the Global Derate Factor used in the monthly CRR allocation and auction. AReM strongly supports any change that would reduce the Global Derate Factor or otherwise improve the accuracy of the quantity of CRRs made available in the monthly process. However, AReM does not believe that the CAISO has provided sufficient information to demonstrate that its proposal accomplishes its stated objectives. AReM requests that the CAISO conduct a study to evaluate an historical period to compare the release of CRRs under each method and the associated CRR revenues that would be expected. Stakeholders would then have adequate information to determine whether to support this proposal.

D. Proposed Tariff Clarifications

The issue paper proposes several tariff clarifications.⁵ AReM supports the clarifications to:

- Remove the tariff requirement for mandatory CRR training for CRR holders.
- Remove a requirement for a software system to track bilateral trades of CRRs.

AReM takes no position on the other tariff clarifications at this time.

⁴ Issue paper, p. 8.

⁵ Issue paper, pp. 11-13.

E. Additional Auction Functionality

The issue paper proposes several options for changes to auction functionality.⁶

AReM supports the following proposals:

- Multi-period optimization algorithm; and
- Auction for multiple months up to the remainder of the year.

In response to other questions raised in the issue paper, AReM does not support the long-term (LT) Auction as a high priority and does not support LT CRR terms greater than 10 years. AReM takes no position at this time on flexible term lengths for LT CRRs.

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On Behalf of the Alliance for Retail Energy Markets

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⁶ Issue paper, pp, 13-14.