

**COMMENTS OF THE ALLIANCE FOR RETAIL ENERGY MARKETS ON  
SECTION 4 OF THE CAISO’S MARCH 19, 2007, CRR ISSUE PAPER**

The Alliance for Retail Energy Markets<sup>1</sup> (“AReM”) appreciates the opportunity to provide comments to the CAISO on Section 4 of its March 19, 2007, CRR Issues Paper. These issues were discussed at stakeholder meetings on February 27 and April 3, as well as at a conference call on March 26.

**1. Sourcing CRRs at Trading Hubs:** As AReM has stated previously, any solution adopted by the CAISO **must** allow the CAISO to remove its prohibition on obtaining LT-CRRs at Trading Hubs. Electric service providers (“ESPs”) are disproportionately affected by this decision, because they buy energy exclusively, or nearly exclusively, at the Trading Hubs. On the other hand, the investor-owned utilities (IOUs) own much of their own generation and are more likely to seek CRRs for those generating units at Pnodes.

The CAISO proposed three options in its March 19 paper, all of which will allow sourcing CRRs at the Trading Hubs. The CAISO has stated its strong preference for Option 1, nomination limits, because it finds this option to be the simplest approach and the easiest to implement. AReM does not favor Option 1 because it may severely limit the quantity of CRRs available at the Trading Hubs, which may harm ESPs. However, AReM acknowledges that adequate time may not be available to develop one of the other preferable alternatives. Accordingly, AReM agrees to support Option 1 for the initial implementation of MRTU only. This support is contingent on the CAISO including provisions to mitigate the effect of the limitation on nominations on LSEs who rely on Trading Hubs to meet their energy needs. For example, the CAISO proposed setting an upper bound for nominating LT-CRRs based on a function of the LSE’s reliance on hub supply sources. AReM strongly supports this provision as a way to mitigate the adverse effects of the arbitrary limits placed on CRRs at the Trading Hubs.

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<sup>1</sup> AReM is a California non-profit mutual benefit corporation comprised of electric service providers (“ESPs”) that serve the majority of the state's direct access load. The comments contained in this filing represent the position of AReM, but not necessarily the view of any affiliates of its members with respect to any specific issue.

Further, AReM requests that the CAISO implement Option 1 for no more than 12 months. During this period, the CAISO should conduct additional stakeholder discussions of the pros, cons and technical feasibility of implementing Options 2 (Multi-point CRRs) or Option 3 (Alternative Hubs). Based on those discussions, the CAISO would adopt the option that meets the needs of all stakeholders and implement the modification concurrently with Convergence Bidding.

2. **Set Aside for Intertie CRRs:** AReM can live with either option, but prefers Option 2, because it is simpler, predictable and calculated in advance.

3. **Source Verification Period – Allowable Set of Verified Sources:** AReM elected not to oppose the change in the source verification period proposed by the CAISO in the LT-CRR filing, but now is very disturbed by the “expansion” proposals of the CAISO. The CAISO’s March 19<sup>th</sup> issues paper raised several new issues.

- **Specifying Time Periods for the Contracts** -- AReM has not opposed the new source verification period, but believes the CAISO is taking “expansion” too far. The proposal to allow any contract for any plant during any time period, past or future, is complicated to implement (requiring possible pro rata curtailments for LSEs) and prone to gaming. AReM cannot support that approach, which could allow LSEs with fictional plants to obtain CRRs, thereby freezing out LSEs who need to hedge energy from real plants. In AReM’s view, a contract signed anytime before 12/31/07 could count, BUT ONLY if the energy (a) was also delivered in 2006 (the verification period) or (b) is scheduled to be delivered in 2008 (the CRR period). AReM’s approach is consistent with the original intent of the source verification period, avoids gaming and allows for modest, yet controlled, “expansion.”
- **Limiting the “expansion” to imports only** – AReM does not support the CAISO’s proposal for the “expansion” of eligible sources for CRRs, except as modified above. If the CAISO decides to adopt its

original proposal, however, limiting the “expansion” to imports may reduce the negative effects and is, therefore, preferable.

- Length of contract used for source verification – AReM continues to support staying with the current requirement of a minimum contract length of 30 days, because of the complexity of moving to 1-day contracts.

**4. Certainty of LT-CRR Renewals:** The CAISO’s discussion of this topic in the March 19<sup>th</sup> paper has turned a simple concept into a complex problem. AReM requests that the CAISO return to the original, simple concept, which was, in fact, proposed by AReM – the CAISO must offer LSEs the same right they offered those with expiring ETCs/CVRs. That is, LSEs who obtain CRRs when they gain migrating load should have the *option* to request those CRRs in the PNT in the next year – just as the LSEs losing the load would have had a right to do with those same LT-CRRs had they not lost the load. Otherwise, the CAISO is providing preferential treatment to those with expiring ETCs/CVRs and discriminating against the other LSEs. This fix is simple and does not require the CAISO to address the multiple and complicated issues raised in the paper. In fact, the complicated questions about LT-CRRs and various scenarios need not be addressed for many years. The CAISO must first be successful in implementing MRTU and issuing LT-CRRs. Accordingly, AReM recommends that the CAISO defer the LT-CRR renewal issue to a later point in time.

AReM thanks the CAISO for its attention to and consideration of these comments.

April 6, 2007