

Bay Area Municipal Transmission Group (BAMx)¹

May 6, 2004

Mr. Scott Jercich
Lead, CRR Implementation
California ISO

Re: BAMx Comments on Draft CRR Study 2 Parameters

Dear Scott,

The Bay Area Municipal Transmission Group (BAMx) is pleased to provide the following comments on the Draft – CRR Study 2 Parameters spreadsheet released by the California ISO on Monday, May 3. BAMx appreciates the opportunity to work with the ISO staff and market participants to develop CRR Study 2 scenarios that will provide important information to understand and evaluate the manner in which Congestion Revenue Rights (CRRs) might be expected to hedge exposure to congestion costs resulting from implementation of locational marginal pricing in California. BAMx understands that the ISO intends to develop three to five study scenarios based on combinations of variables listed in the Draft – CRR Study 2 Parameters spreadsheet. Given this limitation on the number of scenarios, and the large number of variables considered in the spreadsheet, the ISO must necessarily choose combinations of variables to change between scenarios. Unfortunately, doing so would make it difficult to determine which changed variables were responsible for changes to the analysis results. BAMx therefore urges the ISO to attempt to identify those variables that might have the greatest impact on the CRR allocation in developing the study scenarios and to hold constant as many variables as possible across the scenarios. BAMx provides the following comments on specific items in the spreadsheet.

BAMx believes that Item 17 - Metered Sub-Systems (MSS), should properly be treated as part of Item 27 - Upper Bound Calculation. Rather than single out MSSs, the upper bound for the CRR MW allocation factor should be determined consistently for all LSEs. In this regard, BAMx strongly urges the ISO to use gross load for all LSEs' Upper Bound Calculation. The gross load approach was proposed by the CAISO and endorsed by FERC in the CAISO MD02 Conceptual Design. Using net load for Metered Subsystems (MSSs), while at the same time allowing PTOs to use gross load for their Upper Bound calculation, would discriminate against MSSs. If the ISO insists on using net load for MSSs, then the ISO also should net out all generation within each PTO's service territory to ensure comparable treatment. However, BAMx is very concerned about utilizing net loads for CRR allocations, as that could greatly reduce the value and incentive for building needed local generation, especially in expected congestion-laden areas. BAMx members historically have served nearly their entire load via imports using PG&E transmission. Its members are in the process of building, or investigating, significant local generation. If this local generation is netted

¹ The municipal electric utilities of the Cities of Santa Clara, Alameda and Palo Alto comprise the Bay Area Municipal Transmission group (BAMx), whose objective is to promote reliable electric supply to and within the San Francisco Bay Area at reasonable cost.

from the Upper Bound calculation, the number of CRRs that an MSS might be allocated could be dramatically reduced, thereby removing much of the incentive for building local generation. Conversely, a non-MSS entity's existing or new local generation would not be netted under the current ISO proposal. This potentially disparate treatment unfairly disadvantages MSSs and should not be the default scenario modeled by the ISO in this study. If an LSE (whether an MSS or a PTO) wishes to request CRRs from (or receive a hedge for) its internal generation resources to the load aggregation, it should be allowed to do so in the same manner as it requests CRRs from its external generation resources. In summary, the utilization of gross load for the LSE Upper Bound Calculation allows all LSEs, including MSSs, to have greater flexibility to choose how they want to request CRRs.

Regarding Item 3 - Terms of CRRs to Study, BAMx supports the use of 12 one-month terms for 75% of network capacity and 12 individual true-ups of one-month each for the remaining capacity (12/12) as the default for all scenarios. Using the 12-month strip instead of a fixed annual allocation should result in a better matching of variations in LSE loads, as well as variable output resources.

Regarding Item 6 – Transmission Outages, BAMx supports modeling transmission outages for the monthly CRR allocations based on historical outages. BAMx is willing to work with the ISO and stakeholders to develop the appropriate criteria and modeling approach. Modeling such outages in CRR Study 2 will avoid overstating the amount of monthly CRRs likely to be available. This is important, given that the study is attempting to determine CRR coverage based on nominations and financial hedge positions; the amount of CRRs allocated in the study should reflect the actual amounts expected to be available.

Regarding Item 16 - Hedge Types for CRRs, BAMx supports a scenario in which options CRRs are allocated to LSEs, rather than obligations CRRs.

BAMx believes that Item 25 - Developing Transaction Data and Item 31 - Replace Trading Hub Sources with Generator/Import Sources, are essentially the same issue. BAMx suggests exploring a scenario in which LSEs could nominate two sets of CRRs to be used in combination with each other. One set would include Trading Hub to Load Aggregation CRRs. The second set would include CRRs from specific generators to the Trading Hubs. This approach might be more feasible to implement than attempting to use historical data to model CRRs from actual generator/import locations to the Sinks.

We look forward to continuing to work with the ISO and market participants as CRR Study 2 progresses.

Sincerely,

/s/

Doug Boccignone
For Bay Area Municipal Transmission Group (BAMx)