Comments of Bear Valley Electric Service (a division of Golden State Water Company) on 2011 CRR Enhancements Issue Paper

Description of Bear Valley Electric Service

Bear Valley Electric Service (BVES) is a division of Golden State Water Company (GSWC), an investor-owned utility with its principal business address at 630 East Foothill Boulevard, San Dimas, CA 91773. GSWC is a wholly owned subsidiary of American States Water Company. GSWC is engaged principally in the purchase, production, distribution, and sale of water in California, serving approximately 255,000 water customers. Through its BVES division, GSWC owns and operates an electric distribution system that provides electric utility service to about 23,000 customers in a service area in the Big Bear Lake area of San Bernardino County, California. The California Public Utilities Commission (CPUC) regulates GSWC's water and electric utility business, including properties, rates, services, facilities, and other matters.

BVES provides electric utility service primarily to residential customers in a resort community with a mix of full-time and part-time residents, but also to about 1,500 commercial, industrial, and public-authority customers, including two ski resorts.

The BVES distribution system is interconnected with distribution facilities owned, controlled, and operated by Southern California Edison Company (SCE) and is located in and operates in the ISO balancing authority area. GSWC does not own electric transmission facilities and is not a Participating Transmission Owner under the ISO Tariff.

While GSWC owns and operates a gas-fired generation facility in its BVES service area to meet peak demand, GSWC purchases wholesale capacity and energy to meet the majority of the requirements of its BVES customers. To deliver purchased wholesale power to the BVES

distribution system, GSWC obtains transmission service and schedules transactions under the ISO Tariff using a third-party scheduling coordinator, APX, Inc. The BVES load is scheduled at two take-out points on the ISO-controlled portion of SCE's transmission system (at SCE's Victor and Vista substations). From these two points, GSWC obtains additional transmission service under SCE's Wholesale Distribution Access Tariff and other transmission service agreements with SCE to effectuate the delivery of purchased power to the BVES distribution system.

GSWC has executed a CRR Entity Agreement with the ISO and is a CRR Holder under the ISO Tariff. As a Load-Serving Entity (LSE) within the ISO balancing authority area, GSWC has received CRRs through the annual and monthly CRR Allocations conducted to date.

Comments on 2011 CRR Enhancements Issue Paper

These comments address section 4.3 of the Issue Paper, "Simplification of the Allocation Process." There, the ISO proposes (1) to eliminate the Tier 2 and Tier 3 annual CRR allocations in favor of a single annual CRR auction, while allowing LSEs to nominate in the next year's Priority Nomination Process (PNP) any CRRs obtained in that auction that sink at the LSE's load location; (2) to eliminate the Tier 1 and Tier 2 monthly CRR allocations in favor of a single monthly auction; and (3) to distribute the proceeds of the CRR auctions based upon weighted exposure to congestion based upon where the load is settled.

BVES opposes eliminating these CRR allocations. While the ISO would retain the PNP's Tier 1 annual CRR allocation, its proposal to eliminate all other CRR allocations would completely transform—not enhance and not simplify—the process that LSEs understood they would use to obtain CRRs under the Market Reform and Technology Upgrade (MRTU) Tariff. Because the ISO would maintain the PNP's existing load limits on LSE nominations and

allocated CRRs, the ISO's proposal would require LSEs to purchase at auctions the CRRs for half of their historic loads.

From the perspective of an LSE—particularly a small LSE like BVES—this prospect is more complicated and more costly. An LSE desiring protection against congestion charges would have no choice but to participate in the annual and monthly auctions. It is by no means clear that participating in these auctions would be less complex and costly for the LSE than submitting load forecasts and nominations under the existing allocation process. The LSE would likely incur additional costs in preparing for the auctions. For example, the LSE would have to determine what value to place on the CRRs in both annual and monthly auctions. This is more complicated than the direct allocations, which are straightforward exercises in load forecasting.

Moreover, the LSE's greater participation in CRR auctions may also come with a direct cost in the form of additional credit requirements. This cost appears unavoidable: FERC has required the ISO to eliminate the use of unsecured credit for CRRs. The credit requirements mean additional cost and work for LSEs.

The LSE would have to account for its CRR auction expenditures (including credit costs) and the auction proceeds it receives—without any assurance they would offset one another, as occurs automatically in the case of a direct allocation. The resulting CRRs would be an even less perfect hedge against congestion charges. This means greater cost and risk for the LSE. Under the proposal, it appears that the auction proceeds would continue to be used to cover a negative balance in the ISO's CRR balancing account, but excess auction proceeds would be distributed to LSEs "based upon weighted exposure to congestion based upon where the load is settled" (Issue Paper at 11). It is unclear how annual and monthly congestion and load would be measured for this purpose, and consequently it is unclear whether this proposal would adequately

reimburse LSEs for the cost of any CRRs they purchased in these auctions. If the ISO proceeds with this proposal, it should clarify how the direct allocation of the auction proceeds to LSEs will work and provide examples for both large and small LSEs.

The Issue Paper asserts that this "simplification proposal" would save the ISO and market participants the cost of conducting the CRR allocations. But it is not clear that compelling LSEs to participate in CRR auctions would save them any administrative costs over CRR direct allocations. As noted above, there are distinct additional costs associated with LSE participation in CRR auctions. These costs are likely to be disproportionately greater for smaller LSEs. The ISO has not provided any quantitative analysis to help LSEs understand the cost savings that the ISO claims would be obtained. Indeed, the Issue Paper claims that a benefit of eliminating the CRR allocations would be more time for the ISO and market participants to complete the new CRR process—not a shorter CRR process. The cost savings may well be illusory for LSEs.

The CRR allocations under the MRTU were designed to protect and benefit LSEs and, thus, the end-use consumers they serve. Eliminating them in favor of auctions is at best premature: the ISO, LSEs, and other market participants are now completing only CRR Year Two. If the goal is less complexity and cost, then the answer would appear to be to simplify and streamline the CRR allocation process rather than require LSEs to use CRR auctions.

Respectfully submitted,

Randolph Lee Elliott
Miller, Balis & O'Neil, P.C.
Twelfth Floor
1015 Fifteenth Street, N.W.
Washington, DC 20005-2605
202-296-2960 ext. 3878
202-296-0166 (fax)
relliott@mbolaw.com

Tracey Drabant
Sean Matlock
Bear Valley Electric Service
42020 Garstin Dr.
P.O. Box 1547
Big Bear Lake, CA 92315
909-866-4678
traceydrabant@bves.com
smatlock@bves.com