

## CDWR's Comments to CAISO's on 2011 CRR Enhancements Straw Proposal

CDWR appreciates CAISO's initiative to look for opportunities to improve the current CRR process for both market participants and CAISO. CDWR also appreciates CAISO's decision to allow market participants to post questions and comments regarding the CAISO's 2011 CRR Enhancements Straw Proposal.

### 4.2 Revenue Adequacy Issues

CDWR supports CAISO's initiative to improve the CRR Revenue Adequacy. In CDWR's previous March 17, 2011 comments to CAISO's 2011 CRR Enhancements Issue Paper, CDWR suggested that, prior to making any recommendations for improving the modeling of transmission capacity available for CRRs, CAISO perform studies and reports to determine and provide details regarding how adopting an OTC or median OTC would improve CRR Revenue Adequacy. CDWR is concerned that, if CAISO's proposed modeling of transmission capacity for available CRRs (ATC) results in a major reduction compared with that available in previous annual CRR allocation processes, then existing LT-CRRs allocated previously could lock out most of the ATC available for future Tier 2 and Tier 3 CRR annual allocations. In this case, entities such as CDWR, that for various reasons<sup>1</sup>, which depend on Tier 2 and Tier 3 to obtain much of their annual CRR needs, could end up with no CRR after the annual allocation process and would need to rely on the annual auction or monthly CRR allocation and auction processes to obtain the additional required CRR. CAISO's CRR Enhancements Straw Proposal does not mention that CAISO would perform any studies to indicate how using OTC or median OTC would help achieving CRR Revenue Adequacy. CDWR strongly believes that such studies are necessary.

For the same reasons described above, CDWR opposes reducing the CRR capacity released in the annual process from 75% to 65% or allow applying a Global Derate Factor (GDF) for the annual process. The current methodology used by CAISO to select GDF is ambiguous and is not yet defined in the MRTU Tariff and/or CRR BPM. It is CDWR's understanding that CAISO's method of selecting GDF is based on a direct linear increase (per CAISO's choice of the linearity gradient) in the next month's GDF as a function of the shortage in the prior month's Revenue Adequacy. This method of determining GDF does not always work as shown in some months when Revenue Adequacy was not achieved even if GDF was selected at very high values<sup>2</sup>. Therefore, CDWR believes that GDF is not the best method of controlling the Revenue Adequacy and strongly opposes applying GDF to decrease the annual CRR capacity.

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<sup>1</sup> For CDWR, the reasons that determined a limited participation in the PNP were as follows: undeserved reduction in the On-Peak PNP UB due to ambiguous MRTU-CRR Tariff language, loss of the ability to renew valuable CRR in the 2010 and following years PNP due to CRR FNM modeling error in the Antelope to Vincent line, and great fluctuations in CDWR's On-Peak congestion rents.

<sup>2</sup> The Revenue Adequacy was not achieved in March 2011 even GDF was set to 22.5. This GDF resulted in a reduction with 90% of the monthly CRR capacity available for the March 2011 CRR process.

Although CDWR understands CAISO's explanation for not achieving the Revenue Adequacy is based on inaccurate modeling of outages because it is impossible to predict forced outages, CDWR strongly believes Revenue Adequacy might be caused by other factors. For example, in February 2011, despite setting the GDF at 17.5%, Revenue Adequacy fell short by \$6.6 million, the highest shortage observed since MRTU start-up. This example could lead one to believe that the introduction of Convergence Bidding in February 1<sup>st</sup>, 2011 could be the main reason for not achieving Revenue Adequacy that month. Consequently, CDWR strongly suggests CAISO investigate Convergence Bidding's impact on CRR Revenue Adequacy and identify other MRTU features that could impact CRR Revenue Adequacy.

#### 4.3 Combination of Tier 1 and Tier 2 Monthly Allocation

CDWR accepts the merging of Tier 1 and Tier 2 of the monthly allocation under one monthly CRR allocation tier if the market participants agree it is beneficial and if the current design of maintaining the CRR Revenue Adequacy with a high Global Derate Factor (GDF) is maintained.

#### 4.4. Issues Requiring Tariff Clarification

CDWR supports the following issues requiring Tariff clarification:

- 4.4.1 Clarification of PNP Upper Bound;
- 4.4.2 Reconfiguration of Previously Released Annual CRRs (considering this is a viable method of reconfigure LT-CRR in the event CAISO adopts OTC or median OTC);
- 4.4.3 Remove Mandatory CRR Training requirement from tariff;
- 4.4.4 Allow manual SRS vs. existing software process;
- 4.4.5 Auction Clearing Price Calculation;
- 4.4.6 Credit Requirements for Load Migration and Bilateral Transfers;
- 4.4.7 Portfolio of bids submitted vs. individual bids;
- 4.4.8 Retirement Process for Disconnected Nodes; and
- 4.4.9 Implementation of Sell Feature;

CDWR recommends that, besides the tariff clarification issues described above, CAISO adds tariff language to address the reimbursement for a market participant's CRR revenues loss. The CRR revenue loss could be the result of:

- CAISO's CRR FNM modeling error,
- or any other error that occurs in the CRR processes and is caused, intentionally or unintentionally, by the other market participants.

If you have any questions please contact Daniel Cretu at (916) 574-0658.