CPUC Staff Comments Regarding CAISO's May 18, 2007 CRR Issues Paper

Introduction

As always, the CPUC appreciates the opportunity to comment on the CAISO's May 18, 2007 CRR Issues Paper. It is clear to CPUC staff that CAISO staff took a great deal of care to think through preliminary issues and obtain input from appropriate staff and market participants. CPUC staff also appreciates the input of stakeholders who have already contributed substantially to these proposals and discussions.

Load Migration

<u>CAISO proposal:</u>

The CAISO proposes perform a *pro rata* transfer of Congestion Revenue Rights ("CRRs") as load migrates. Load Serving Entities ("LSEs") would be unable to formally transfer long-term CRRs ("LT CRRs") in increments beyond the current CRR allocation year. CPUC staff believes this bar will help prevent LSEs from inadvertently disposing of LT CRRs that may properly be subject to reallocation due to load migration.

CPUC staff supports many of the CAISO's proposed core objective/principles, such as that CRRs belong to load (objective/principle 1). CPUC staff also support the proposition that LSEs that receive CRRs pursuant to load migration reallocation must qualify as Candidate CRR holders, which may be subject to a more stringent qualification process than for LSEs generally (objective/principle 4). CPUC staff are also very interested in assuring that whatever load migration mechanism that is adopted avoids opportunities for gaming, such as where the migration of a particular quantity of load may result in the transfer of different amounts or values of CRRs depending on features such as characteristics of the gaining and losing LSEs (objective/principle 9). CPUC staff understands that CAISO tracking/administration of CRR migration may be necessary in order to assure a fair, uniform process for transfers between LSEs. The CPUC recommends that the CAISO develop a suitable framework for this purpose via the stakeholder process.

<u>PG&E Proposal</u>:

CPUC staff understands that one or more stakeholders (led by PG&E) are developing an alternative that would allow for the financial value of CRRs to transfer rather than the CRR itself. CPUC staff is not clear whether or how it may be appropriate to protect LSEs with long-term energy supply contracts from the loss of a proportionate share of LT CRRs if and/or when the LSE's load migrates (objective/principle 5). The CPUC is sensitive that its requirements for long-term contracting with resources significantly benefit the long-term reliability of California's energy supply.

It is unclear, however, whether objective/principle 5 could be implemented without compromising many of the other proposed objectives and principles. At this point, CPUC staff is open to considering the merits of both proposals, or any other methodology that maintains the core principles described above. CPUC staff also question whether and how the value arising from the losing LSE’s ability to renew the subject CRR will impact the transfer of the financial settlements associated with migrating CRRs. Also. the duration of the transferred value is unclear. Another question is who bears the risk in the case of a default by the transferor LSE.

Consistency Between CRR and RA Load Forecasts

CPUC staff understands that CAISO staff is considering load forecast methodologies that would neutralize incentives for LSEs to over-forecast load in order to gain more CRRs, but under-forecast load for Resource Adequacy (“RA”) purposes in order to reduce RA procurement obligations. Both CPUC and CAISO staff are considering whether it is possible to bridge the forecasts used for RA with the CRR nomination and load migration estimates. CPUC staff looks forward to continuing discussions on this subject.