

CPUC Comments on the CAISO's Proposed Methodology for Determining CRRs for Merchant Transmission Upgrades

The CPUC here comments on the CAISO's March 23, 2007, proposal regarding *Methodology for Determining CRRs for Merchant Transmission Upgrades*, and *CAISO Proposal: Methodology for Determining CRRs for Merchant Transmission Upgrades*, issued on April 6, 2007, both issued pursuant to Guideline No. 3 of Federal Energy Regulatory Commission ("FERC") Order No. 681 and FERC's September 21, 2006, MRTU Order. The CPUC appreciates the opportunity to comment on these documents.¹

Merchant Transmission Sponsors should be allowed to obtain obligation CRRs but not option CRRs.

In *Methodology for Determining CRRs for Merchant Transmission Upgrades*² posted April 6, 2007, (hereafter "Methodology"), the CAISO stated that "Merchant Transmission Sponsors may elect Merchant CRRs as either option CRRs or obligation CRRs or a combination of both." The CPUC staff believes that Merchant CRRs should be only obligation CRRs. In particular, the CPUC staff finds that the introduction of option CRRs into a system that would otherwise be comprised exclusively of obligation CRRs would be detrimental to the overall function of the CAISO's CRR system.

There is no compelling need for option CRRs for Merchant Transmission Sponsors.

The CPUC staff does not see a compelling need for the CAISO to allocate option CRRs for Merchant Transmission Upgrades. CPUC staff recognizes that some Merchant Transmission Sponsors may be intolerant of higher levels of risk in their return on investment, and that option CRRs would eliminate financial risk associated with obligation CRRs. CPUC staff believes this risk to be an insufficient cause to create and allocate option CRRs to Merchant Transmission Sponsors. The risk from obligation CRRs would not be imposed on unwilling Merchant Transmission Sponsors. As noted in *Methodology*, in many cases transmission developers may elect to recover costs through other methods, such as CAISO's transmission access

¹ The April 6th proposal is a "policy statement would provide the foundation of the CAISO's tariff amendment[.]" while the March 23rd proposal includes a more thorough discussion of outstanding issues related to the allocation of CRRs for merchant transmission upgrades.

detailing how CRRs would be allocated to merchant transmission sponsors.

² <http://www.caiso.com/1bb8/1bb8ac2b1e8f0.pdf>

charges and other regulated returns on their investments. Moreover, even if Merchant Transmission Sponsors could not reasonably accept alternate methods of cost recovery, they may sell their allocated obligation CRRs on the secondary market at any time, including immediately upon receipt of such CRRs. This sale would alleviate potential risk that some Merchant Transmission Sponsors may be unwilling to tolerate.

Introducing Option CRRs to the CRR market would be problematic for the CAISO's overall CRR paradigm.

1. Option CRRs increase the risk of shortfalls in the CRR balancing account, a cost that would result in additional charges to load. While CPUC staff supports incentives for new transmission, as will be explored in more depth in item 4, CPUC staff does not believe that the increased incentive of option CRRs justifies the risk to ratepayers.

2. CPUC staff also believes that the introduction of Option CRRs in only one situation would introduce unnecessary and potentially risky complications into the CRR secondary market. We understand the position of the CAISO to be that the trading of CRRs will be permitted, and can not ultimately be prevented. Trading of CRRs would result in market participants other than Merchant Transmission Sponsors being able to purchase option CRRs on a secondary market. The introduction of a relatively small share of option CRRs would increase the complexity of an already intricate CRR market. Failure by market participants to fully understand the market may lead to market complications and opportunities for gaming the CRR market.

3. The possibility of market participants owning option CRRs has not been incorporated in the various other CRR related stakeholder processes, such as in the percent of transmission capacity available for nomination as long-term CRRs. The introduction of option CRRs to the secondary market may require that many, if not all CRR-related procedures be reconsidered in order to ensure that such processes will function properly with the introduction of option CRRs. CPUC staff believes that the timely implementation of MRTU may be exacerbated by the introduction of option CRRs. CPUC staff does not oppose the eventual introduction of option CRRs into the CAISO market once the CAISO and market participants have greater experience in the complexities arising from the transition to a new transmission program, as discussed in CPUC comments submitted during the FERC proceeding leading up to Order 681. CPUC staff believes, however, that the

introduction of complicating factors in the CRR equation should be slow and measured. This late introduction of a complicating factor does not fit within this slow and measured approach.

4. CPUC staff believes that obligation CRRs create incentives to build transmission in the most valuable, and thus most needed, locations. The risk associated with obligation CRRs arises from the possibility that the direction of congestion through the line may reverse and cause the owner of the CRR to owe a fee rather than receive revenue. Staff understands that incentives to invest in transmission should be concentrated in areas where there is consistent congestion, in order to alleviate that congestion. The offering of option CRRs will not provide the same incentive to invest in transmission in particularly valuable locations as the offering of only obligation CRRs. The risk of a reversal in CRR revenue is most likely in areas that are not consistently congested, and least likely in paths that are consistently congested. Thus, at least initially, CPUC staff believes that obligation CRR are not a design element that is necessary to incent investment in the most needed transmission solution paths.

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