

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Long Term Transmission Rights in)	Docket No. AD05-7-000
Markets Operated by)	
Regional Transmission Organizations)	
and Independent System Operators)	

**COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON
NOTICE INVITING COMMENTS ON ESTABLISHING
LONG TERM TRANSMISSION RIGHTS IN MARKETS
WITH LOCATIONAL PRICING**

Pursuant to the Notice Inviting Comments on Establishing Long Term Transmission Rights in Markets with Locational Pricing (“Notice Inviting Comments”) issued by the Federal Energy Regulatory Commission (“Commission”) on May 11, 2005, in the above-captioned proceeding, the California Independent System Operator Corporation (“CAISO”) hereby its submits comments to the Long-Term Transmission Rights Assessment, FERC Staff Discussion Paper (“Staff Discussion Paper”) issued together with the Notice Inviting Comments.

The CAISO welcomes the opportunity to engage in this discussion on the need for longer term transmission rights as the CAISO continues to actively engage its own stakeholders in discussions over similar issues in developing its Congestion Revenue Rights (“CRRs”) as part of the Market Redesign and Technology Upgrade (“MRTU”). While the CAISO concurs with FERC Staff that long-term transmission rights can be developed in markets operated by

Independent System Operators or Regional Transmission Organizations (“ISO/RTOs”) and that they require a trade-off of costs and risks, the CAISO has not had an opportunity at this early juncture in its market redesign to fully explore these trade-offs with its stakeholders. Therefore, while the CAISO believes that it will begin developing with its stakeholders longer-term CRRs in the not-to-distant future, it is most likely that only the shorter-term one year and monthly CRR products already under development will be available at the start of the Locational Marginal Price (“LMP”)-based markets in February 2007. In the interim and following the start of the LMP-based markets, the CAISO, together with its stakeholders, will continue to explore further the costs and risks associated with long-term CRRs in the CAISO.

Comments

As the Commission is aware, the CAISO is currently engaged in an extensive stakeholder process to develop CRRs as part of its transition to an LMP-based market.¹ While this has been a very constructive process thus far, the CAISO has not yet had the opportunity to fully explore with its stakeholders all the potential costs and risks associated with longer-term transmission rights. Some discussions with stakeholders have ensued about the possibility of having longer-term transmission rights in the new market environment. Indeed, several stakeholders, especially public power entities, have expressed an interest in a longer-term CRR product. Other stakeholders have expressed discomfort with committing to longer-term CRRs given that the CAISO is continuing to develop its

¹ *California Indep. System Operator Corp.*, 105 FERC ¶ 61,140 (2003) (“October 2003 Order”).

LMP- and CRR-based markets and that there are still many uncertainties about how that market will operate. Consequently, the CAISO believes that, while it would be desirable in the not-too-distant future to begin developing CRRs with terms longer than one year, it is unlikely that such instruments will be available in February 2007 when the newly designed market will become operational.

In its July 22, 2003 Amended Comprehensive Market Design Proposal the CAISO proposed to release CRRs initially based on two different term lengths: annual (for the current year and the following year) and monthly (before each month). These are the only two term lengths currently being modeled within “CRR Study 2” with the expectation that the results of this study will provide useful information about the hedging effectiveness of these CRR products. The CAISO expects to complete and publish a report on the CRR Study 2 results by the middle of this summer.

In the interim, the CAISO continues to be actively engaged its stakeholders in a consultative forum, as directed by the Commission’s October 28, 2003 Order on the ISO’s Amended Comprehensive Market Design Proposal.² Although through this forum the CAISO and its stakeholders are reviewing all aspects of CRR allocation rules, including the terms of CRR financial instrument, it appears as though a general consensus is developing to begin market operations with one-year and monthly CRRs. In an attempt to address certain stakeholder requests, the CAISO contemplates that it could offer longer-term CRRs right at the start of the market and simply allow parties that do not want longer-term CRRs to opt from allocation of such rights. The CAISO believes,

² October 2003 Order, 105 FERC ¶ 61,140 at P 173.

however, that this would not be the optimal approach. There is a risk that the availability of longer-term CRRs may affect the allocation of shorter-term CRRs. Consequently, the same parties that feel it would be too risky to commit to longer-term CRRs and would opt out of the allocation would also object to having other market participants lock-up these rights before everyone has had an opportunity to explore fully the LMP-based market with the shorter-term CRRs.

The CAISO believes that longer-term CRRs should only be developed and adopted if its market participants in fact express considerable interest in having such instruments available and the CAISO has determined that it is not at the detriment of other participants. Therefore, the CAISO believes that it is prudent to defer the consideration of a long-term CRR product and to offer only monthly and one-year CRRs for the first year when the LMP-based market becomes operation and to have the longer-term CRRs available for the second annual release of CRRs.

Nevertheless, if it becomes apparent, both through responses to the Notice Inviting Comments and through the CAISO stakeholder process, that there is broad interest among stakeholders to adopt longer-term CRRs, the CAISO will give longer-term CRRs further consideration. Clearly, there is some interest in CRRs among stakeholders in the CAISO. For example, at a most recent stakeholder meeting discussing MRTU issues, certain stakeholders expressed the interest in structuring a “limited” longer-term CRR release for the first year of the LMP-based market. The CAISO is committed to continuing to engage in such discussions for longer-term CRRs with its stakeholders.

If some form of longer-term CRRs will be adopted for the second year of LMP-based market, as a starting point the CAISO would suggest that stakeholders consider a simple extension to two years of the one-year CRR being offered at market start-up. The CAISO would conduct an annual allocation/auction process to release two sets of consecutive annual CRRs, *i.e.*, one set applying to each of the next two years. Similar to the approach the CAISO proposed for the shorter-term CRRs in its July 2003 MRTU filing, it is conceivable that these longer-term instruments would also be available by peak-hour and off-peak-hour and there would be the ability to hold different quantities for each month to enable market participants to hedge time-of-use and seasonal variation in expected congestion cost exposure.

Also similar to the current CRR proposal under development, the CAISO would limit total quantities to 75% of available transmission capacity with a monthly "true-up" allocation/auction processes, conducted before the start of each month, in which the remaining transmission capacity would be released to parties based on revised estimates of their needs and accounting for planned transmission outages. Extending this approach to two years would involve an annual allocation-auction covering two consecutive years of annual (or twenty-four months of monthly) CRR quantities, with a release up to 75% of transmission capacity for the first twelve months and perhaps 37.5% for the second twelve months, and to repeat this process on a rolling annual basis.

This is just one approach that the CAISO believes to be reasonable. The CAISO is open to considering other alternatives through its stakeholder process.

CONCLUSION

The CAISO appreciates FERC Staff's efforts in providing the opportunity for dialogue on the issues related to developing longer-term transmission rights in LMP-based markets and looks forward to reviewing the Commission's findings on this matter. The CAISO also looks forward to continuing to explore further with its stakeholders the costs and risks associated with adopting longer-term CRRs under the MRTU effort in the CAISO.

Respectfully submitted,

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Dated: June 27, 2005



June 27, 2005

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

**Re: Long Term Transmission Rights in Markets Operated by Regional
Transmission Organizations and Independent System Operators
Docket No. AD05-7-000**

Dear Secretary Salas:

Enclosed please find an electronic filing of Comments of the California Independent System Operator Corporation on Notice Inviting Comments on Establishing Long Term Transmission Rights in Markets with Locational Pricing.

Thank you for your attention to this filing.

Respectfully submitted,

/s/ Anna A. McKenna
Anna A. McKenna

Counsel for the California Independent
System Operator Corporation