

August 23, 2004

Comments received from SCE regarding the "Draft Proposal for the Allocation of Congestion Revenue Rights (CRRs) to Merchant Transmission" paper prepared by the California ISO.

Southern California Edison (SCE) appreciates the efforts of the CAISO in developing its "Draft Proposal for the Allocation of Congestion Revenue Rights [(CRRs)] to Merchant Transmission". After careful review, SCE would like to provide clarifications, in the attached redlined document, regarding which type of Merchant Transmission projects should be eligible for an allocation of CRRs. Also, SCE is concerned with accuracy of the proposed methodology for determining the amount of the incremental benefit associated with a Merchant Transmission project.

The attached redlined version of the CASIO proposal is intended to provide further clarity on the circumstances under which the Merchant Transmission Owner will not receive CRRs. In particular, this revision addresses the situation where a Merchant Transmission Owner will be recovering all of the costs associated with its entitlement in the Transmission Revenue Requirement of another PTO. The CAISO's draft states that the Merchant Transmission Owner can receive CRRs as long as it does not recover the investment costs in a FERC rate. SCE believes that CRRs should not be provided where the costs of the Merchant Transmission Owner's entitlement are recovered in some other PTO's transmission rate.
(See attached file: Merchant Transmission - CRR Allocation_08.06.2004_SCE_redline.doc)

Lastly, SCE is concerned that the limited accuracy of the DC Full Network Model and the constraints to be modeled coupled with the proposed method of estimating the additional capacity provide by a Merchant Transmission project can result in significant CRR misallocations. The danger of misallocation is especially acute since the allocations resulting from this estimation would be memorialized for the life of the projects. In addition, SCE is also concerned that the misapplication of the "capacity CRRs" for excluding existing transmission from the analysis of what additional capacity the Merchant Transmission project provides would compound the inaccuracies. SCE proposes that the issue of determining how the incremental benefit is calculated be vetted further with stakeholders with the goal of developing alternate methodologies for evaluation.

Regards
Alex

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