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Northern California Power Agency Comments on CRR Allocation Rules
Resolution of Open Issues & CRR Credit Policy
April 6, 2007

Northern California Power Agency ("NCPA") would like to thank the CAISO for the opportunity to provide limited comments on the concepts presented during the CAISO CRR stakeholder meeting that was held on April 3, 2007. In particular, the comments found below have been provided to address the issues of Reserving Grid Capacity for Auctions, and incorporating Additional Credit Requirements for Long-term CRRs held by External LSEs. The fact that these comments do not address each and every aspect of the issues raised during the April 3 stakeholder meeting should not be construed as an endorsement of issues raised therein.

Reserving Grid Capacity for Auctions

During the April 3 stakeholder meeting the CAISO presented a new proposal for reserving grid capacity for auctions. The proposal would reduce the amount of capacity made available for the Annual CRR Allocation to sixty percent (60%), and would reduce the amount of capacity made available for the Monthly CRR Allocation to ninety percent (90%). NCPA strongly supports the concept of allocating CRR instruments prior to making the instruments available through an auction process. As a result, NCPA does not support the concept of reducing the amount of allocated rights in order to increase the amount of rights made available for the auction process as proposed, but instead believes that the current proposal, as filed in the conditionally approve MRTU Tariff (Section 36), in which the CAISO will make available seventy-five percent (75%) of Seasonal Available CRR Capacity for the annual CRR Allocation and CRR Auction processes, and one hundred percent (100%) of Monthly Available CRR Capacity for the monthly CRR Allocation and CRR Auction processes, better reflects the needs of Load Serving Entities "LSE" that pay for the embedded cost of the system.

Additional Credit Requirements for LT-CRRs Held by External LSEs

The CAISO also discussed the proposed CRR Credit Policy during the April 3 stakeholder meeting. As part of that proposal, the CAISO indicated that External LSEs will be subjected to the same credit requirements for holding LT-CRRs as other Market participants, and will be required to prepay the relevant Wheeling Access Charges ("WAC") in order to participate in the CRR Allocation processes. The proposal also indicated that External LSEs will be required to maintain one year of credit coverage for their WAC prepayment beyond the current period. NCPA strongly disagrees with the additional requirement to maintain one year of credit coverage for an External LSE's WAC prepayment beyond the current period. This additional requirement is unwarranted, and will be viewed as discriminatory against External LSEs that have proven, pursuant to the provisions of the CAISO MRTU Tariff, to have a legitimate need to acquired CRR instruments. During the stakeholder meeting, it was explained that an External LSE could impose greater risk upon the market simply due to the fact that their loads are not located within the CAISO control area. It was suggested that an External LSE that has taken a "heavy" position with regard to their CRR portfolio could pose greater risk to the market than an Internal LSE in the case of a default. As stated in the CAISO proposal, an External LSE will be subjected to the same credit requirements for holding LT-CRRs as other Market participants. On top of that requirement, an External LSE is also required to prepay the relevant WAC and enter into a contractual agreement that guarantees prepayment of the relevant WAC for each remaining year associated with the LT-CRR (which in itself is view as an onerous requirement). An Internal LSE that has also taken a "heavy" position with regard to their CRR portfolio will have the same anticipated impact on the market in the case of a default, and is not subject to any other contractual requirements that would lessen risk imposed upon the market. The CAISO's proposal to implement this additional discriminatory requirement on External LSEs has not been proven to be required, and should be removed from the proposal.