Comments of Noble Americas Energy Solutions LLC

2011 CRR Enhancements

Noble Americas Energy Solutions LLC ("Noble Solutions" or "Noble") appreciates the opportunity to comment on the CAISO's 2011 CRR Enhancements Straw Proposal dated April 15, 2011.

Load Migration

Noble Solutions supports the CAISO's proposal to refer the examination of policy options for addressing CRR transfers associated with load migration to a working group. Noble would expect to participate in such a group.

Revenue Adequacy

Noble Solutions opposes any relaxation of the full funding requirement for CRRs. The primary purpose of the CRR market is to allow an LSE to hedge its congestion exposure. Having the "right" number of CRRs on the right paths is the way to achieve revenue adequacy, and the way to give LSEs a fair opportunity to hedge congestion risk. Noble urges the CAISO to maintain its commitment to CRR revenue adequacy.

To a certain extent, of course, applying CRR auction revenues to offset the CRR revenue shortfalls mitigates the CRR revenue inadequacy issue. However, the way in which CRR auction revenue is applied to measured demand may not make CRR holders "whole" in a uniform manner. Therefore, seeking a mechanism to more closely model revenue adequacy is an appropriate goal.

The CAISO's proposal to use an OTC duration curve has the virtue that each individual transmission element can be modeled to achieve its own theoretical revenue adequacy. If this approach works as well in practice, it may well "solve" the revenue adequacy problem by itself, and Noble recommends that it be applied on a stand-alone basis, without either of the other proposed techniques (reduction of annual/monthly ratio from 75/25 to 65/35 or the application of a Global Derate Factor to the annual process). We simply cannot know the efficacy of a given technique if two variables are simultaneously applied.

If a companion technique to the OTC duration curve is deemed necessary, the GDF applied to the annual process is not the right approach. Instead, a Local Derate Factor (LDF) should be derived and applied in the monthly process to paths that have been the source of revenue inadequacy.

Alternately, Noble would support a 65/35 split between the annual and monthly processes, so long as a PNP process is developed for the expanded monthly allocation, under the assumption that monthly capacity becomes available.

This is necessary to insure that longer-term commitments undertaken to meet renewable portfolio standard obligations are not impaired. CAISO's own planning efforts (e.g., RETPP) have been directed toward meeting the 33% RPS; permitting an enhanced PNP in the monthly CRR process is a way to harmonize CAISO's CRR program with the broader renewables policy.

<u>Merging Monthly Allocation Tiers</u>

It is unclear what, outside of reduced analytical time, is accomplished by merging the monthly allocation tiers. Perhaps some analysis is needed to determine whether there is significant revenue shortfall attributable to the monthly tier process; and if so, whether merging the tiers will mitigate this phenomenon. In any event, merging the tiers and increasing the monthly allocation percentage to 35% again simultaneously changes two variables, making it impossible to assess the efficacy, or even the impact, of a single change in the monthly process.

Disconnected PNodes

The CAISO has proposed that when a resource is retired, the closest biddable PNode, rather than the closest electrical PNode, be used as a substitute. This could exacerbate revenue inadequacy for that CRR. Instead, Noble proposes that CAISO examine whether the closest electrical PNode could be made a biddable location for the duration of that CRR.

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