

## PG&E Comments

### Subject: CRR Enhancements – Draft Final Proposal on CRR Credit Issues, and Straw Proposal on Non-Credit Issues

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the following topics in regards to CRR Enhancements. Upon completion of this template please submit (in MS Word) to [jprice@caiso.com](mailto:jprice@caiso.com). Submissions are requested by close of business on November 23, 2009.

Please submit your comments to the following questions for each topic in the spaces indicated.

#### Draft Final Proposal on CRR Credit Issues

##### 1. CRR Credit Policy Enhancements

During the stakeholder conference call on November 16, 2009, the ISO described its Draft Final Proposal. So that the ISO can provide a tabulation of stakeholder positions on each of the following aspects of the ISO's proposal, please provide a brief statement of your position, such as "support", "oppose", "neutral", or similar statement:

- Calculation of maximum credit exposure of a CRR bid using the same MW value for the total credit requirement.

**PG&E supports this proposal made by CAISO to revise the calculation of the maximum credit exposure of a CRR bid.**

- Reduce pre-auction credit requirement for a negatively-valued CRR bid, by excluding negative bid (but not the credit margin) in the calculation. (As described by the ISO, this involves using the auction winning value to meet the holding credit requirement for the CRR.)

**PG&E supports this proposal made by CAISO to reduce the pre-auction credit requirement for a negatively-valued CRR bid.**

- Reduce the minimum credit requirement in the monthly CRR auction from \$500,000 to \$100,000.

**PG&E does not object to CAISO's proposal on this issue.**

Do you have any further comments regarding the proposed CRR credit policy enhancement?

**In Section 4.1.2. of its Issue Paper dated August 14, 2009, CAISO stated "The ISO tariff section 12.5.1(e) provides authority for the ISO to resell to the market the CRRs that were held by a CRR Holder determined to be in default. The purpose of the present proposal is to try to specify an approach whereby such resale would be accomplished."**

**PG&E is concerned about the lack of progress on this issue. CAISO states that there is no imminent risk of a participant defaulting on their CRRs. This is misleading statement as extreme price volatility in the IFM market can change credit requirements within a matter of days. CAISO's position seems to be that it can predict, in advance, when a party will default. PG&E believes that this issue needs to be addressed during a period when there is not a pressing need to act. Discussing this issue when a party is in default is less than ideal. As such PG&E requests that this issue be given a higher priority and addressed with the next round of CRR enhancements.**

**Straw Proposal on Non-Credit Issues**

During the stakeholder conference call on November 16, 2009, the ISO described its Straw Proposal concerning several non-credit CRR enhancements. Please refer to the ISO's Straw Proposal document at <http://www.caiso.com/2461/2461bbf935ca0.pdf>, and presentation at <http://www.caiso.com/2464/2464c5941a230.pdf>, to find details of the ISO's Straw Proposal.

**2. Load Migration Process**

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the process for adjusting CRR holdings to reflect load migration?

**PG&E cannot support the CAISO's proposal at this time. CAISO's own presentation during the November 16 conference summarizes PG&E's objection - "Current [load migration] process, including roles & responsibilities, resulted from significant discussions between ISO and stakeholders. Potential revisions need adequate justification & discussion." This proposal has not been adequately justified or discussed.**

**Although CAISO's simplified their proposal from its initial position, the impacts of this change must be thoroughly discussed among stakeholders. Indeed, AREM raised concerns about how disputes in load migration calculations will be resolved. CAISO's response was not adequate.**

The entire load migration process could benefit from a review. CAISO's contention that this proposal ensures consistency and transparency is wholly without merit. Without the UDCs providing customer specific identification, CAISO cannot identify if a specific customer has been migrated.

Also, in CAISO's presentation during the November 16 conference call, it was stated "UDC reporting of number of customers ensures consistency with UDCs' calculation of average demand for customer classes." This statement is also dubious. The process by which migrating customers (with each customer assigned a customer class) is reported is completely independent of the calculations of average load per customer class. Reporting of number of migrating customers will also be independent of the calculations of average load per customer class.

PG&E is concerned that CAISO is misrepresenting this proposal as an effort to improve the load migration process. In fact, this proposal reduces transparency, does nothing to improve data consistency and is being initiated solely by the CAISO desire to avoid handling end-use retail customer. The proposal does reduce the amount of data the UDCs must submit to CAISO each month and it achieves the CAISO's stated goal of avoiding end-use customer data. However, it remains undetermined if these benefits outweigh the lost transparency and cost to implement.

PG&E restates its recommendation that a working group, comprised of affected LSEs, reconvene to discuss this issue and other topics that may improve the load migration process. With the reinstatement of direct access and potential community choice aggregation activities, PG&E feels it is important to review the load migration process to ensure that potential increases in load migration transactions can be adequately and uniformly processed by CAISO and the UDCs.

### **3. Modeling and Treatment of Trading Hubs**

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the method for handling trading hubs in the CRR release?

**PG&E does not object to CAISO's proposal on this issue.**

### **4. Weighted Least Squares Objective Function**

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the weighted least squares objective function?

**PG&E does not object to CAISO's proposal on this issue although PG&E does request more simulations be conducted to see the impact vis-à-vis the current objective function. PG&E would like to see a handful of real nominations evaluated with the WLS objective function. If privacy concerns are raised, PG&E would like to have private results communicated to each market participant so it can evaluate how it would have fared with a WLS objective function.**

PG&E seeks more clarification regarding the benefit vs. cost analysis CAISO will perform to see if it is cost effective to implement the WLS objective function. CAISO states that Auction Revenue Rights (ARR) will be considered at some undetermined future date. CAISO claims the switch to ARRs may reduce the accrued benefits associated with WLS. Given that the implementation of ARRs is undetermined, PG&E is curious how CAISO will determine if it cost effective to implement WLS. Also, how does CAISO justify implementing the sell feature in the CRR auction which is presented as if the benefits clearly outweigh the costs?

**5. Multi-point CRRs**

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the elimination of multi-point CRRs?

**PG&E does not object to CAISO's proposal on this issue.**

**PG&E notes that the elimination of multi-point CRR reduces the nomination options available to market participants. This could result in market participants receiving fewer CRR than before. To offset this potential, PG&E suggests that the elimination of multi-point CRRs occur concurrently or after the implementation of changes in the rules concerning the monthly tiers.**

**6. Tiers in Monthly Allocation**

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the refinement of tiers in monthly CRR allocation?

**PG&E supports the proposals made by CAISO to refine the tiers in monthly allocation process. Specifically, PG&E supports**

- **retaining two tiers in the monthly process;**
- **allowing SubLAP nominations in both tiers of the monthly process;**
- **allowing 100% of monthly eligible quantity, less previously awarded CRRs for the same period, be available for nomination in both tiers of the monthly process.**

**Although PG&E supports the aforementioned refinements, it must be noted that the refinements do not address the stated objective of "reducing the amount of time required by CRR participants as well as the CAISO to perform the monthly CRR Allocation."**

**For purposes of clarification, PG&E believes the objective, as stated, is contrary to the desires of market participants and CAISO. Rather than "reducing the amount of time required...to perform the monthly" process, PG&E wants to extend the amount of time allowed to perform the monthly process.**

**PG&E believes a major flaw in the monthly process is that it does not allow enough time for participants to review the Full Network Model (FNM) and results of each monthly allocation tier. More time must be provided to market participants so that**

they can adequately review the FNM and allocation results. CAISO alluded to this objective on the November 16 conference call.

PG&E asked how this initiative provided more time for market participants during the monthly process. CAISO replied that the rule changes make it possible for LSEs to obtain their entire desired CRR portfolio by the end of Tier 1 thereby obviating the need to participate in Tier 2 and providing more time to analyze potential auction bids without the need to submit Tier 2 nominations.

However, CAISO acknowledged that no additional time was allocated between the release of the FNM to market participants and closing of Tier 1. Similarly, if a market participant wants to participate in Tier 2 (for any reason), no additional time is allocated between Tier 1 and Tier 2 or between Tier 2 and the auction. Only in the limited circumstances previously described by CAISO is there any additional time for market participants to analyze the results. Furthermore, PG&E is not convinced of the validity of this claim. To the extent that Tier 2 results affect auction bids, market participants that do not participate in Tier 2 will still have to analyze Tier 2 results to formulate their auction bid curves.

PG&E supports this proposal because it allows more flexibility in Tier 1 and makes better use of time during the compressed monthly CRR process. To address the issue of extending the monthly schedule to allow adequate time for market participants, PG&E again calls for re-examination of the 30 Day Outage Rule.

Extending the 30 Day Outage Rule will affect transmission operations so PG&E requests that a stakeholder process that includes transmission owners and CRR market participants be convened to assess the feasibility of extending the 30 Day Outage Rule. PG&E resubmits this comment because it addresses the original objective of allowing adequate time in the monthly process for market participants to formulate their CRR nominations.

#### **7. Sale of CRRs in CRR Auctions**

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the sale of CRRs in the CRR auction?

**PG&E supports the proposal made by CAISO to provide a sell feature in the monthly and annual CRR auctions.**

#### **8. Modeling Approaches to Improve Revenue Adequacy**

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the modeling to reinforce CRR revenue adequacy through transmission outage consideration?

**PG&E strongly believes that the current monthly FNM modeling approach of applying a 15% global derate is arbitrary and for most months, unnecessarily**

**restrictive. PG&E is anxious to discuss alternate approaches to improving revenue adequacy that are based on analyses and do not unduly limit the awarded CRRs.**

**PG&E supports CAISO's recommendation to postpone discussion on this issue until one year after MRTU Go-Live. This will allow a full year of applicable congestion prices and outage data to be used in analyses and discussion.**

**9. Tracking of Long Term CRRs**

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the tracking of long-term CRRs in the CRR system?

**PG&E supports the proposal made by CAISO to track the full term of all Long Term CRRs in the CRR system.**

**10. Signature Data in Priority Nomination Process**

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the process for "signature data" in PNP?

**PG&E supports the proposal made by CAISO to modify tariff language with respect to the priority nomination process. PG&E believes that this year's Signature Validation Data calculations were incorrect. Inarguably, the calculations were different than last year's PNP calculations.**

**PG&E believes that the PNP nominations for a given source-sink (DLAP only) pair are limited to the amount from the previous year's annual allocation (adjusted for load migration) less the Long Term CRRs converted during the previous year.**

**PG&E will attempt to provide draft revisions to the tariff to clarify this issue in supplemental comments.**

**11. Other Comments?**

**PG&E reiterates its concern that stakeholder discussions are being scheduled without regard for the Annual and Monthly CRR process. Despite CAISO's statements that the stakeholder process was delayed to avoid the annual process, PG&E notes that the November 16 conference call on this topic was scheduled for the same day that the Annual Auction nominations were due. In addition, these comments are due on November 23 which is the same day that December Auction nominations are due.**

**PG&E requests that conference calls and stakeholder comments be scheduled around monthly allocation and auction nomination closing dates and avoid late August through October when LSEs are participating in the annual allocation process.**

**Some members of CAISO staff have also stated, repeatedly, their preference for ARR without giving any supporting data. PG&E is not versed in ARR protocols at other RTOs so it cannot refute the statement without additional information. PG&E does note that the ranking of stakeholder initiatives did not rank ARRs in the High Priority category. Equally concerning is that CAISO will not propose a timeline to stakeholder ARRs. PG&E is anxious to improve the CRR process in anyway possible. If ARRs are clearly superior to CRRs (as CAISO staff has stated), PG&E fails to understand why CAISO does not present these comparative benefits to market participants as soon as possible so as to begin the stakeholder process.**

**PG&E appreciates the opportunity to provide comments on these CRR Enhancements. For follow-up or questions, please contact Dan Sparks (415-973-4130) or Glenn Goldbeck (415-973-3235).**