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Comments of Pacific Gas and Electric Company

Subject: 2011 CRR Enhancements

Submitted by	Company	Date Submitted
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PG&E appreciates the opportunity to provide comments on the *2011 CRR Enhancements* Straw Proposal dated April 15, 2011 (http://www.caiso.com/2b61/2b61adcf564c0.pdf) and the 2011 CRR Enhancements Straw Proposal presentation dated April 22, 2011 (http://www.caiso.com/2b66/2b669e3c39430.pdf).

Before addressing specific proposals identified in the Straw Proposal, PG&E would like to discuss the timing of implementation. CAISO has stated it wishes to implement changes in the monthly process prior to 2012. Regardless of their merit, PG&E opposes the implementation of any proposals affecting the monthly process prior to 2012. The 2011 Annual CRR process was conducted with rules in place which governed the 2011 monthly CRR processes. Market participants nominated annual CRRs with a common understanding of the manner in which the 2011 monthly processes would be conducted. It would be unfair to market participants for CAISO to change the monthly process in 2011. If participants had been aware that these changes would be implemented in the monthly process, they would likely have changed their bidding behavior in the annual process.

CAISO has postponed releasing the monthly CRR schedules for the 4th quarter of 2011 as they consider the proposed changes to the monthly process. For the reasons stated above, PG&E opposes implementing any monthly changes in 2011 and asks CAISO to release the monthly CRR schedules for the 4th quarter without delay. The 4th quarter is a particularly busy time for the CAISO CRR team and market participants as the annual process runs concurrently with the monthly processes. Also, holiday travel and vacation schedules need to be coordinated. It is beneficial to all parties for CAISO to release the monthly schedules for the 4th quarter and the 2012 Annual CRR process schedule at the earliest possible date.

PG&E has the following comments regarding proposed 2011 CRR Enhancements Straw Proposals.

<u>Load Migration Issues</u>

PG&E supports CAISO's efforts to convene a working group to deal with load migration issues exclusively. Since load migration only affects a subset of the load serving entities (LSEs) that participate in the annual and long-term allocation processes, it will be a more efficient use of time to form a working group.

PG&E has two recommendations with respect to the working group. First, the working group's milestones should be independent of the other CRR enhancements. The problems associated with load migration and the CRR transfers can largely be traced back to processes which are not easily scalable by CAISO's internal systems and labor intensive for the utility distribution companies (UDCs). Careful and deliberate consideration must be given to the impact modifying these processes will have on CAISO, UDCs and affected LSEs. These complex interactions will take time to analyze and should not be bound by milestones set in the CRR Enhancements stakeholder process.

CAISO stated in the straw proposal that the working group is being established "to address implementation improvements to the expressed policy…that the CRR portfolio values should transfer the percentage of load which has migrated." This would seem to preclude any discussion on the "basic principle[1]" or its interpretation. PG&E opposes this restriction and restates its original comments on this issue.

> *PG&E is of the opinion that the "basic principle" does not provide cost and risk reductions for the load gaining entity. The load gaining entity is required to receive "a slice" of the load losing entity's CRR portfolio. Different entities have different resource portfolios and risk tolerance profiles. The current load migration process effectively transfers the congestion hedges of the load losing entity's portfolio to the load gaining entity. To that end, a relaxation of or slight redefinition of the "basic principle" may greatly facilitate simplification of the load migration process.*

PG&E remains unconvinced whether the "basic principle" should be inviolate or is even desired. PG&E uses the case of long-term (LT) CRRs as an example. When an LSE with LT-CRRs loses load, it transfers LT-CRRs to the load gaining entity. This occurs even if the load gaining LSE has chosen not to participate in the long-term process. In these instances, the load gaining LSE takes on long-term obligations which it had explicitly attempted to avoid.

Revenue Adequacy Issues

PG&E generally supports the Operating Transfer Capability (OTC) Methodology or "break-even analysis" proposed for the annual process. PG&E opposes the proposed methodology for establishing capacity in the monthly process. PG&E also needs to understand further details regarding the proposal before it can fully support it.

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[1] *2011 CRR Enhancements Straw Proposal* (April 15, 2011), p.5.

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PG&E's Concerns Regarding the Monthly Process

PG&E is concerned that the effects of planned outages will be distorted or misapplied in the monthly process by using the OTC Methodology. CAISO's proposal for the monthly process calculates the released capacity as "the minimum of the annual OTC value for that month (based on the break-even analysis) or the TTC [Total Transfer Capability] less planned outages." CAISO states that as a result of this proposal, the "'double counting' issue does not arise [in the monthly process] as planned outages are not used to reduce the capacity already determined to be revenue adequate in the annual process." CAISO goes on to provide to numerical examples which are discussed below.

CAISO's two scenarios are stated below.

	Scenario 1	Scenario 2
TTC	1000 MW	1000 MW
Planned Outages	400 MW	100 MW
Annual OTC Value	750 MW	750 MW
Monthly Capacity	600 MW	750 MW

In both scenarios, PG&E has questions regarding the derivation of the Planned Outages values. These values can change on an hourly basis. CAISO's examples use a single value for monthly Planned Outages for this hypothetical intertie.[2] How will this single value be derived? Will the current rules regarding outage modeling in the monthly Full Network Model (FNM) be applied in the setting the monthly Planned Outages? If so, PG&E notes that the current modeling criteria for the monthly process prorates outages with a duration of less than 10 days. However, in setting the Annual OTC value, planned outages with a duration of a single hour are factored into the break-even analysis. Is this different treatment equitable?

Scenario 2 sets the monthly capacity to the Annual OTC Value. Implicit in the Annual OTC Value is a set of planned and forced outage which occurred during the historical analysis period. ***In Scenario 2, CAISO is disregarding planned outages that are known to be scheduled for the month and implicitly considering historical planned outages which may or may not exceed the planned outages scheduled for the month when setting the Monthly Capacity.*** This is illogical, overly restrictive and seemingly proposed for the express purpose of lowering the Monthly Capacity (presumably to better ensure revenue adequacy).

Using CAISO's proposed methodology, the Monthly Capacity can never exceed the Annual OTC Value. This is an artificial barrier constructed by CAISO. The very fact that the monthly value must be less than the annual value shows that it is biased and not

[2] PG&E assumes this methodology will be applied for both On Peak and Off Peak Time-of-Use (TOU) periods and that the scenarios are for a single TOU period.

objective. PG&E submits Scenario 3 to illustrate the ill conceived nature of this proposal.

	Scenario 3
TTC	1000 MW
Planned Outages	0 MW
Annual OTC Value	750 MW
Monthly Capacity	750 MW

In Scenario 3, assume there were extended planned outages and no forced outages during the analysis period which resulted in the Annual OTC Value being set to 750 MW. The Annual OTC Value was based on a set of planned outages that are known to be absent in the monthly process. The conditions which resulted in revenue inadequacy in the past are known to be absent for the month but yet their impacts are still being considered.

CAISO seems to consider the break-even analysis as definitive when it is merely a proxy for actual, forward-looking analysis. If planned outages were known at the time of the annual process, CAISO could dispense with the break-even analysis and model planned outages in the annual FNM. Planned outages are known prior to the monthly process so actual modeling of outages should replace any reversion to the annual OTC methodology.

For the monthly process, PG&E proposes setting the Monthly Capacity to the TTC less planned outages (specific outage modeling rules to be determined). The difference would be multiplied by a historical forced outage rate for that interface for the specific month. PG&E can provide more details as CAISO drafts a second straw proposal or a draft final proposal.

PG&E Strongly Opposes the Use of the Global Derate Factor in the Annual Process

CAISO has published analyses which show that the dollar majority of revenue shortages are caused by congestion on a handful of paths (primarily interties). The OTC methodology addresses the root causes of the revenue inadequacy as identified in previous analyses. In addition, the break-even analysis is formulated to achieve revenue neutrality.

CAISO has stated on numerous conference calls that the monthly Global Derate Factor (GDF) is a “blunt tool” and not particularly effective. For the 24 months ending March 2011, the CRR market has been revenue inadequate for 17 months. During that period, the GDF has ranged between 2.5% and 20% and has been greater than or equal to 15% for 22 consecutive months. The April 2011 CRR process was conducted with the GDF set to 22.5% and it will likely end with a revenue shortage of approximately $5 million. As a point of comparison, the March 2011 CRR process was conducted with the GDF set to 15% and the revenue shortage was $2.8 million. Summarizing the monthly change, between March and April 2011, the GDF was increased by 7.5 percentage points and the revenue shortage increased by approximately $4 million.

Given the CAISO's past analyses and statements as well as the effect the monthly GDF has had in achieving revenue adequacy, PG&E is astounded that CAISO would propose to expand the use of the GDF to the annual process.

In its Straw Proposal, CAISO included two GDF related proposals which are presented as mutually exclusive. However, on the April 22 conference call, CAISO intimated that the two proposals may be implemented simultaneously. From the Straw Proposal, "ISO proposes to either reduce the capacity released in the annual process from 75% to 65% or allow a Global Derate Factor…for the annual process in order to ensure there is sufficient capacity remaining for stakeholders to true up their CRR holdings in the monthly process."

Addressing the use of a GDF in the annual process, PG&E asks how such a value would be established. PG&E has complained that the setting of the GDF in monthly process is reactionary, secretive and subjective. CAISO seems to set the monthly GDF based on the revenue adequacy two months prior. Example: the April 2011 GDF was set to 22.5% in response to revenue shortages in February 2011. Given that these are difference quarters, there are different sets of annual and long-term CRRs prior to each monthly CRR process. The causes of revenue shortages in April are different than the causes of revenue shortages in February; there were different CRRs awarded, there were different planned outages, there were different load and generation patterns, etc.

PG&E's other complaint is that CAISO does not share the analysis they perform in setting the monthly GDF.

Given these concerns, PG&E is opposed to allowing CAISO to recreate these practices in setting an annual GDF. With planned outages unknown at the time of the annual process, how will CAISO even establish the monthly GDF? Would CAISO set the annual GDF based on the current year's revenue adequacy?

Reducing the annual capacity release from 75% to 65% essentially establishes a fixed annual GDF. Whereas the monthly GDF is variable and unknown until a week prior to the monthly process, 65% is a fixed but arbitrary value that has not been shown to improve revenue adequacy and is inconsistent with established tariff provisions governing the relative release capacities for the long-term, annual and monthly processes.

CAISO has not released analysis which shows a reduction to 65% will improve revenue adequacy. Indeed, CAISO does not even claim that the reduction will improve revenue adequacy. Rather, CAISO states it is making the proposal "in order to ensure there is sufficient capacity remaining for stakeholders to true up their CRR holdings in the monthly process." Although CAISO's proposal may accomplish this goal, it does so at the expense of the annual process. Any additional CRRs awarded in the monthly process as a result of this proposal could have been awarded in the annual process. For LSEs, this distinction is important as annually allocated CRRs are eligible for the next year's Priority Nomination Process and possibly conversion to long-term.

Ironically, CAISO's Straw Proposal reinforces the unnecessary nature of imposing an annual GDF or reducing the release capacity to 65%. CAISO states, the OTC Methodology "will target the areas that have historically contributed to revenue inadequacy while not impacting those areas that have not had adverse effects on revenue adequacy and the benefits of this approach will be utilized to lower the value of the GDF in the monthly CRR allocation and auction." The implementation of the OTC Methodology appears to obviate the need to implement an annual GDF or reduce the release capacity to 65%.

PG&E believes that successful implementation of the OTC methodology that results in lower monthly GDFs will result in "sufficient capacity remaining for stakeholders to true up their CRR holdings in the monthly process." Imposing a monthly GDF is redundant and upsets the balance between monthly, annual and long-term CRRs.

<u>OTC Methodology Applied to non-Intertie Paths</u>

In the Straw Proposal, CAISO "proposes to include tariff language to [use the OTC Methodology] to determine the capacity for interties and other significant paths in the annual process." PG&E questions how this methodology could be used for non-Intertie paths. The radial nature of the modeling of interties is conducive to the break-even analysis. Interties can have differing import and export ratings. Currently, the FNM modeling of internal paths does not allow for bidirectional ratings. PG&E is not sure if such bidirectional ratings can be implemented and whether they would be beneficial.

PG&E asks CAISO to detail how the OTC Methodology would be applied to internal paths and if they require different treatment than interties.

<u>Presentation Proposals Regarding Revenue Adequacy</u>

On the April 22 conference call, CAISO presented three proposals which were not included in the Straw Proposal paper. CAISO asked stakeholders to comment on them.

<u>Splitting Capacity 50% Annual, 50% Monthly</u>

This proposal is a variation of the straw proposal to reduce the annual release capacity to 65%. PG&E opposes it for the same reason as it opposes the reduction to 65%. PG&E would note that the release capacity is set to 60% under current long-term CRR process. Moving the annual to 50% would mean that some existing long-term CRRs could create binding constraints in the annual process and result in fewer CRRs being awarded.

<u>Applying Localized De-Rate Factors</u>

PG&E proposed this in its Issues Paper comments.[3] PG&E restates its original comments.

> *PG&E proposes that additional tools be developed to manage revenue adequacy in the monthly process. For purposes of this discussion, PG&E will refer to theses as localized derate factors (LDRFs). LDRFs would allow for more targeted derates such that the facilities most likely to contribute to revenue shortages would be derated more than facilities less likely to contribute to revenue shortages.*
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> *CAISO should analyze factors which contribute to revenue shortages including but not limited to nominal voltage level, TAC area, TOU period, historical congestion data and historical LMPs. PG&E proposes that CAISO share the analysis with stakeholders and jointly develop criteria to establish LDRFs.*

<u>Relaxing the CRR Full Funding Requirement</u>

CAISO asked for comments regarding relaxation of the CRR Full Funding Requirement or in other words, paying CRR holders a prorated share of their CRR payments when revenue inadequacy occurs. At this time, PG&E opposes any relaxation of the CRR Full Funding Requirement.

This proposal has an egalitarian appeal upon initial inspection. However, PG&E notes that the current mechanism to deal with revenue shortages has a similar effect as relaxing the full funding requirement. Revenue shortages are paid by LSEs in proportion to their load share. This has the same effect as reducing CRR payments to the LSEs. This mechanism favors auction CRRs.

Since FERC has ordered that long-term CRRs must be fully funded, the requirement can only be relaxed for monthly and annual CRRs (allocations and auctions). This would favor long-tem CRR holders and give an incentive to LSEs to acquire long-term CRRs over annual and monthly allocated CRRs.

Relaxing the full funding requirement would also affect auction clearing prices as participants would factor in the risk of partial payment on their CRRs. This would distort auction clearing prices and likely result in less auction revenues.

The proposal to relax the Full Funding Requirement is akin to treating the symptoms of a disease instead of curing the disease. If revenue adequacy can consistently be achieved, there is no need to consider relaxing the full funding requirement.

<u>Combination of Tier 1 and Tier 2 Monthly Allocation</u>

[3] *Comments of Pacific Gas and Electric Company Subject: 2011 CRR Enhancements* (March 28, 2011), p.3.

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PG&E opposes the merging of Tiers 1 and 2 in the monthly process for two reasons. First, Tier 2 is an integral part of the monthly process and its importance will likely be increased. Second, PG&E has different priorities regarding the use of any time savings in the monthly process.

Beginning in October 2010, rules were changed to remove Tier 1 restrictions to nominations. Monthly Tiers 1 and 2 have been conducted under identical nomination rules. Since then, 20% of the total monthly allocated CRRs (as measured in MW) have been allocated in Tier 2. This indicates that market participants adjust their Tier 2 nomination in response to Tier 1 results. PG&E believe the percentage awarded in Tier 2 would be higher if the monthly GDF was lower.

Since market participants are currently receiving one fifth of their monthly allocated CRRs in Tier 2 and CAISO believes the GDF can be reduced in the monthly process after the OTC Methodology is implemented, PG&E believes it would be unwise to eliminate Tier 2 at this time. The importance of each tier will be increased if more total CRRs are available as LSEs have already demonstrated their ability to adjust nominations in response to Tier 1 results.

PG&E would appreciate additional time during the monthly process. However, CAISO sample timelines place an emphasis on giving market participants additional time to review the CRR FNM and giving CAISO staff additional time to incorporate any changes identified in market participants' comments. These are worthwhile pursuits but not at the expense of Tier 2.

The elimination of Tier 2 only provides four to five business days of time savings in the typical monthly process. PG&E would prefer to see additional time savings which could provide more time between Tiers 1 and 2 and incorporating CRR FNM comments. PG&E believes the only way to achieve these time savings is to extend the 30 Day Outage Rule to some longer period. PG&E proposes that CAISO begin a stakeholder forum which includes CRR market participants and transmission owners with the purpose of investigating the feasibility of extending the 30 Day Outage Rule.

On Slide 7 of the April 22 presentation is an exhibit showing the actual timelines for three months and the sample timelines for the same three months if Tiers 1 and 2 are combined. PG&E would like to clarify the dates shown for the "Incremental Update to CRR FNM." For all three months, the date is one day earlier in the sample timeline compared to the actual timeline. These one day savings are not a result of combining Tiers 1 and 2. CAISO staff believes it may be able to release the CRR FNM one day earlier in future months and reflected that in the sample timelines. CAISO presented the actual timelines with actual dates instead of retroactively adjusting the actual timelines to reflect the one day savings.

Issues Requiring Tariff Clarification

PG&E supports revised tariff language to clarify the issues identified in Section 4.4 of the Straw Proposal Paper.

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