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* Issue Paper dated March 4, 2011 (http://www.caiso.com/2b37/2b379e9a574f0.pdf) and the 2011 CRR Enhancements presentation dated March 11, 2011 (http://www.caiso.com/2b3b/2b3bd81552180.pdf).

Before addressing specific enhancements identified in the Issue Paper, PG&E requests that the Stakeholder Engagement schedule be revised. The schedule (also published in the Issue Paper) calls for a Stakeholder Meeting on April 15, 2011. The monthly nominations for the May Tier 2 Allocation are also due April 15. PG&E requests the Stakeholder Meeting be postponed to Monday, April 18 or later to accommodate stakeholders who have other responsibilities on days when allocation tier or auction nominations are due.

PG&E has the following comments regarding proposed 2011 enhancements.

Load Migration Issues

PG&E agrees with CAISO that the proliferation of CRRs resulting from the load migration process is unnecessarily burdensome for CAISO and market participants. In the Issue Paper, CAISO reports the Total Load Migration Inventory is 768,518 records as of February 1, 2011. Approximately 250,000 additional load migration records were created from February 1 to February 28. The load migration process is creating CRR records at a pace which will become unmanageable.

CAISO stated in its Issue Paper, "During the early development of the current load migration process, the basic principle was when a percentage of load migrated, the equivalent percentage value of the CRR portfolio held by the load-losing LSE should transfer to the load-gaining LSE. Value is not determined solely by MW quantity, but by the relative value of the different sources."

In the Issue Paper, CAISO does not endorse a specific proposal addressing this issue. CAISO presents various tables listing CRR record counts and MW amounts. The paper and CAISO's comments on the March 11 conference call imply CAISO is considering not transferring CRRs less than an undetermined threshold value. This proposal seems to be at odds with the aforementioned "basic principle."

CAISO also discussed a proposal to transfer trading hub to DLAP CRRs (and corresponding counterflow CRRs) as an alternative to the current approach. This is similar to a proposal PG&E made in 2010 to modify the load migration process. At that time, CAISO informed PG&E that a trading hub CRR may be an appropriate proxy for CRRs sourced at resources internal to CAISO. However, CAISO maintained it was not an appropriate proxy for CRRs sourced at intertie and scheduling points. PG&E also questions if using a DLAP as a sink is always appropriate. Many CRRs utilize Sub-LAPs (SLAPs) which can have significantly different congestion costs than DLAPs.

PG&E supports simplifying the load migration process but cannot comment on how this should be done as at this time CAISO has not made a specific proposal. PG&E does notice that the two tentative proposals CAISO has put forward do not strictly adhere to CAISO's "basic principle."

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.

Given that CAISO appears to be straying from the tenets of the "basic principle", PG&E believes the basic principle should be reaffirmed by market participants and CAISO.

Revenue Adequacy Issues

PG&E is concerned about overall revenue adequacy. Revenue adequacy is defined as the net congestion rent collected in the IFM exceeding the CRR payments plus the Perfect Hedge payments. The CRR market has been cumulatively revenue inadequate (or revenue short) since MRTU started in April 2009.

Various CAISO reports have identified specific interties as the key contributors to revenue shortfall. In response to this, CAISO has proposed a new methodology to determine Operating Transfer Capability (OTC). CAISO proposes to use an OTC value for each intertie which would have resulted in revenue adequacy on that intertie during the prior year. CAISO refers to this value as the break-even point.

In essence, CAISO is proposing to manage the CRR markets with the primary goal of overall revenue adequacy and secondary goals of revenue adequacy on each intertie.

Historical data indicates that achieving the secondary goals will better insure the primary goal is met.

PG&E generally supports CAISO's revenue adequacy proposal but requests CAISO provide additional information about revenue adequacy conditions. CAISO has implied it will reserve the right to adjust the calculated break-even point OTC values. PG&E urges caution in this regard and requests CAISO's straw proposal include the conditions under which these adjustments would be made.

PG&E would also like to know how much of the revenue shortfalls were caused by long-term CRRs. If the MW total of the long term CRRs exceeds the calculated OTC break-even point, the effectiveness of this proposal is questionable and alternatives or supplemental proposals should be considered.

In the monthly process, the Global Derate Factor (GDF) is the primary mechanism used by CAISO to manage revenue adequacy. The GDF has ranged from 2.5% to 22.5% since MRTU started. CAISO has acknowledged that the GDF is a blunt and ineffective tool for managing revenue adequacy. The GDF derates all transmission facilities identically regardless of their expected or actual contribution to revenue inadequacy.

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.

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.

Simplification of the Allocation Process

PG&E is strongly opposed to the proposals laid out in Section 4.3 of the Issue Paper. Despite being titled "Simplification of the Allocation Process," the proposal radically restructures the CRR market design. CAISO has not adequately demonstrated the benefits of the proposal either when compared against other RTO markets or vis-à-vis CAISO's current CRR market design.

The cornerstone of CAISO's proposal is to combine Tiers 2, 3 and the auction of the annual process and Tiers 1, 2 and the auction of the monthly process. Additionally, CAISO proposes to distribute CRR auction proceeds differently. Finally, CAISO proposes that certain CRRs from the annual auction be eligible for nomination in the following year's PNP but also exempted from the load migration process.

PG&E opposition to the proposal is based on design flaws in the CAISO proposal as well concerns about the benefits of moving away from the current CRR market design.

Under the proposal, the annual auction would offer two distinct products which cannot be price differentiated. LSEs would have the right to nominate certain CRRs from the auction in the following year's PNP and if successful, nominate those same CRRs in Tier LT. Although unstated, presumably CRRs with a DLAP as the sink would remain eligible for the PNP. Non-LSEs would have no comparable rights in the following year's annual process.

The new auction design creates a hybrid class of CRRs (exclusively for LSEs) which would likely result in increased auction clearing prices at the DLAPs. Since only LSEs can receive PNP-eligible CRRs in the auction, LSEs would likely be willing to pay more than non-LSEs for the same CRRs. Stated otherwise, LSEs would be bidding on CRRs which have an option of PNP renewal and long-term conversion whereas non-LSEs would be bidding on CRRs which expire within the year.

The proposed market design would likely increase costs to the LSEs and their load or end-use customers. It would also distort the auction clearing prices and send inaccurate price signals to the market. Finally, non-LSE may be disadvantaged if LSEs are willing to pay more for their CRRs. PG&E notes that under the current design, LSEs can nominate Tiers 2 and 3 CRRs in the following year's PNP without distorting the auction clearing prices.

CAISO also proposes to distribute auction proceeds to load with an additional congestion weighting. As CAISO explained on the conference call, the congestion associated with each DLAP would be the basis for these congestion weightings. CAISO maintains that this new methodology will make the LSEs indifferent as to acquiring CRRs in the new auction or receiving their congestion-weighted share of the auction proceeds.

However, CAISO's argument ignores that congestion costs are a function of the difference between sources and sinks. By only considering the DLAP congestion, CAISO is ignoring each LSE's resource portfolio or sources. The congestion exposure for LSEs can vary considerably even if they share the same DLAP. Indeed, the IFM is designed to send price signals to both the load and generation to relieve congestion. CAISO's proposal only considers the DLAP congestion in distributing auction proceeds when much of an LSE's congestion costs can be incurred at its source Pnodes. CAISO's proposal introduces an arbitrary congestion weighting factor into the distribution of auction proceeds.

Using the criteria of "simplification," CAISO dismisses PJM and MISO Auction Revenue Rights (ARRs) models as not likely to produce simplification benefits. PG&E sees no reason to reject ARRs or any alternate design based on this limited and sole criterion. Furthermore, CAISO proposes no other alternatives which truly simplify the markets.

PG&E remains unconvinced that CAISO's proposed "simplification" is desired or needed by the market participants. CAISO did not solicit stakeholder input prior to crafting the proposal. The current CRR market design involved a contentious stakeholder process which CAISO seems to downplay. The delicately balanced compromise design of the CRR market was achieved after much debate. CAISO's "simplification" proposal would undo much of what was achieved in previous stakeholder processes.

PG&E proposes that CAISO withdraw this proposal and open a new dialog with stakeholders. Simplification issues and market restructuring issues are distinct and should not be conflated. CAISO should determine if stakeholders want simplification and/or market restructuring and if so, then design separate proposals for each with the stakeholders' input.

Issues Requiring Tariff Clarification

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

Long Term Auction and Balance of Planning Period Auction Functionality

CAISO ask that stakeholders comment on the desirability of Long Term Auctions, Balance of Planning Period Auctions and other auction enhancements.

Given that CRRs have been revenue inadequate since MRTU, PG&E cannot support a long-term auction or a balance of planning period auction. Both auctions would likely result in increased probabilities of revenue inadequacy as differences in the CRR Full Network Model (FNM) and IFM FNM would be the same or greater than the current annual process.

PG&E does not reject the auctions outright but asks CAISO to postpone discussion on these topics until a prolonged period of revenue adequacy is achieved.

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