

August 28, 2009

PG&E appreciates the opportunity to provide comments on the *Near-term Enhancements to Congestion Revenue Rights (CRR)* Issue Paper dated August 14, 2009 (<http://www.caiso.com/240f/240fe001f9a0.pdf>) and the CRR Enhancements presentation dated August 21, 2009 (<http://www.caiso.com/240a/240ae010492b0.pdf>).

Before addressing specific enhancements identified in the Issue Paper, PG&E states its objection to the timing of this stakeholder process. By starting process in August and scheduling stakeholder discussions through September, Load Serving Entities (LSEs) are unduly burdened. LSEs are in the midst of the 2010 Annual CRR Process. Tier 1 and Tier Long Term are scheduled for September and should be the primary focus of LSEs. By scheduling stakeholder discussion in September, CAISO is diverting LSE efforts to the stakeholder process and giving an unfair advantage to non-LSEs in terms of dominating the stakeholder process and being able to devote more effort to analyzing the proposals.

CAISO has stated their schedule is driven by a desire to get CAISO Board approval of CRR-Related Credit Issues in October. On the August 21 conference call, CAISO stated that the pre-auction credit requirement modifications could not be implemented before the Annual CRR Auction in November 2010. The financial impact of the pre-auction credit requirement modifications is much smaller in the monthly auctions due to the shorter term of the CRRs being auctioned. Given the reduced impacts in the monthly auction, PG&E does not believe this issue is important enough to divert the LSE's attention from the Annual CRR Process.

With respect to the other credit related issues (Liquidating the CRRs of a Defaulting CRR Holder and Credit Requirements for Extraordinary Circumstances), these issues have been outstanding since April 1, 2009 without any definitive actions by the CAISO. A CRR Holder was in default earlier this year although the entity met its credit requirements during the grace period. For over three months, CAISO has had time to consider an approach to dealing with defaulting CRR holders and has yet to produce a detailed straw proposal.

Given that the remaining credit related issues are infrequent occurrences, PG&E requests that after the September 8 stakeholder meeting, CAISO table all issues that are not agreed upon by stakeholders at that meeting. CAISO can resume the stakeholder process after the Annual CRR Auction. This will facilitate full participation by all market participants.

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

CRR Credit Policy Changes

PG&E supports the CRR Credit Policy Changes proposed by CAISO. The changes to the pre-auction credit requirement calculation more accurately reflect the risk and maximum credit exposure of auction participants' bids.

August 28, 2009

1 of 6

Process for Liquidating the CRRs of a Defaulting CRR Holder

CAISO's Issue Paper is lacking in specific details on this topic so PG&E defers comments until a straw proposal is released.

On principle, PG&E is opposed to providing a "risk premium" or discount to the sales price of liquidated CRRs. Each market participant's risk profile is unique and CAISO should allow the market to determine the appropriate selling price.

Credit Requirements for Extraordinary Circumstances

PG&E is generally supportive of adjusting CRR holding credit requirements due to extraordinary circumstances. Given that a comprehensive list of "extraordinary events" cannot be compiled a priori, PG&E finds much to support in the CAISO's proposal in the August 14 Issue Paper.

PG&E has the following suggestions to enhance CAISO's proposal.

- CAISO will publicly post the new set of auction clearing prices resulting from the modeling of the extraordinary event and rerunning the latest monthly auction. CAISO will post the prices prior to requiring additional collateral from market participants. This will allow market participants to verify CAISO's credit requirement calculations.
- CAISO will release the CRR FNM used to generate the new set of prices. The CRR FNM will only be released to valid NDA holders. This will allow market participants (who have executed an NDA) to verify that the extraordinary event has been accurately modeled.
- CAISO will issue a public report within 30 days of the end of the extraordinary event. The objective of the report is to measure the impact and efficacy of the credit requirements. Among the initial topics PG&E would recommend for inclusion in the report is a comparison of auction clearing prices vs. IFM DAM MCC during the period of the extraordinary event. CAISO will solicit input from market participants regarding the analysis to be performed in the report.
- CAISO states "Under normal conditions, CRR holding credit requirements will be re-evaluated once a week." During extraordinary events, CAISO will re-evaluate CRR holding requirements not less than once per business day.

PG&E also notes that in some instances, an extraordinary event of short duration may be identified with little lead time before the event occurs. In these instances, the time it takes to prepare the FNM to model the outage, rerun the latest monthly auction, calculate the revised credit requirements, inform market participants and receive additional collateral may exceed the duration of the extraordinary event. PG&E questions whether CAISO's proposal is applicable for "short duration, short lead time" events. PG&E suggests that existing proposal be expanded to specifically address these situations.

Process for Adjusting CRR Holdings to Reflect Load Migration

Without further details regarding the ISO calculation of net load migration between LSEs, PG&E cannot express an informed opinion on this subject

However, CAISO has stated that the current load migration process is working satisfactorily. Given that the current process is functioning, PG&E considers this issue to be of low priority at this time. PG&E recommends that CAISO form a working group of affected LSEs to explore this issue as well other load migration related issues that can be prioritized by the working group. PG&E further recommends that the working group not meet until after the current annual allocation process is completed (not earlier than December 2009).

Method for Handling Trading Hubs in the CRR Release Process

In the Issue Paper, it is not explicitly stated that eliminating disaggregation of the Trading Hub CRRs is a precondition of the alternatives. PG&E will assume this is a precondition since it was stated in the August 21 presentation.

PG&E is opposed to the two alternative approaches proposed by CAISO for handling Trading Hub CRRs. The two alternatives are “(1) limit the MW amounts for CRR nominations using Trading Hubs in Tier 1 of the annual CRR process so that the probability of a constraint becoming binding in tier 1 is greatly decreased, or (2) directly reserve transmission capacity for allocation in tier 2, during the execution of Tier 1.” PG&E believes that both proposals unnecessarily limit CRR nominations (at all Pnodes).

PG&E notes that the option of retaining the trading hub nomination at the hub during the SFT was expressly rejected by stakeholders prior to the launch MRTU. Stakeholders rejected it due to concerns that a single binding constraint would disproportionately reduce CRRs nominations at the trading hubs. CAISO’s first proposal limits the quantity of the trading hub nomination an LSE can request. This essentially recreates the problem the stakeholders wanted to avoid. The end result is the same if the hub nominations are limited to X MW and X MW are awarded or if 2X MW is nominated and X MW are awarded. As for the second alternative, PG&E does not understand how reserved transmission capacity can be earmarked for trading hub nominations. Furthermore, PG&E does not see any justification or precedent to give trading hub nominations such treatment.

PG&E proposes the following alternative for the treatment of Trading Hub CRRs.

1. All Trading Hub Nominations are disaggregated to their constituent Pnodes.
2. The Simultaneous Feasibility Test (SFT) is conducted such that all the constituent Pnodes are awarded in full and any binding constraints caused by the nominations are mitigated by a counterflow CRR not to exceed the disaggregated CRR MW amount at the corresponding disaggregated Pnode.
3. The CRR award would consist of the initial nomination (Trading Hub as the Source) and the counterflow CRRs specified in the previous item.

- The SEQ for subsequent tiers is reduced by the Hub Nomination less the counterflow amounts.

Example:

TH_X = Trading Hub X consisting of five Pnodes when disaggregated
S₁ = TH_X constituent Pnode #1 (20% of TH_X)
S₂ = TH_X constituent Pnode #2 (50% of TH_X)
S₃ = TH_X constituent Pnode #3 (15% of TH_X)
S₄ = TH_X constituent Pnode #4 (10% of TH_X)
S₅ = TH_X constituent Pnode #5 (5% of TH_X)

An LSE nominates 100 MW with TH_X as the Source and a DLAP as the Sink. Suppose a binding constraint reduces S₁ using the current approach. The resulting awards would be

S₁ to DLAP = no award (0 MW)
S₂ to DLAP = 50 MW
S₃ to DLAP = 15 MW
S₄ to DLAP = 10 MW
S₅ to DLAP = 5 MW

Presently, CAISO would award CRRs totaling 80 MW, track four CRRs and reduce the LSE's SEQ for the next tier by 80 MW.

Under PG&E's proposal, the resulting awards would be

TH_X to DLAP = 100 MW
DLAP to S₁ = 20 MW

CAISO would award CRRs totaling 120 MW (100 MW to the DLAP and 20 MW for the counterflow CRR), track two CRRs and reduce the LSE's SEQ for the next tier by 80 MW.

PG&E's proposal would result in fewer or an equal number of CRR source-sink pairs being awarded unless all the constituent Pnodes were partially reduced to a non-zero MW amount due to a binding constraint(s). In that case, one additional source-sink pair would be awarded with respect to the current CAISO methodology.

Move to Single Allocation Tier in Monthly CRR Release

CAISO proposes to move to a single allocation tier in the monthly process to "provide about an additional week between Tier 1...and the auction" to allow market participants more time to "review allocation results and prepare for the auction."

PG&E agrees that there is insufficient time for market participants to properly review the results of Tiers 1 and 2 in the monthly process. However, PG&E is opposed to this proposal. PG&E believes it is important for LSEs to have two opportunities to be allocated CRRs prior

to the monthly auction. This allows LSE to adjust their initial strategy before having to compete with non-LSEs in the auction. PG&E notes that differing rules between Tiers 1 and 2 would need to be reconciled before moving to a single tier. The two tier monthly process was previously agreed upon by stakeholders and a reduction to one tier may have unintended consequences.

CAISO has previously stated that the 30 Day Outage Rule is the limiting factor with respect to the monthly schedules. PG&E proposes to retain the two tiers and extend the 30 Day Outage Rule to some longer time period to accommodate sufficient time to review the results of each allocation tier.

CAISO has stated that gaining consensus for the 30 Day Outage Rule from PTOs was contentious. However, there was a common misunderstanding among many PTOs that outage requests would be denied if they were submitted after the 30 Day Outage Rule deadline. This is not the intention or result of the 30 Day Outage Rule. In addition, PG&E notes that the 30 Day Outage Rule exists solely for preparation of the FNM used in the monthly CRR processes. If the 30 Day Outage Rule is not allowing enough time in the monthly schedule, it should be changed.

Elimination of Multi-Point CRRs

CAISO stated in the Issue Paper that “The complexity and cost of having this functionality impacts almost every aspect of the CRR software.” PG&E would like to have a better understanding of the complexity and costs so it can evaluate the impact of eliminating multi-point CRRs. PG&E requests CAISO devote time at the September 8 meeting to detailing the difficulties and costs associated with retaining the multi-point CRR functionality.

PG&E reserves further comment on this issue until after the September 8 stakeholder meeting. PG&E has several questions regarding this issue which can be better addressed during an interactive session with CAISO and other market participants.

Weighted Least Squares Objective Function in the SFT

PG&E recognizes that several CRR enhancements being considered have impacts on each other. In the past, PG&E has expressed support of the concept of the weighted least squares objective function in the SFT. That support was contingent on the objective function being defined. In addition, PG&E’s support was expressed when the full range of enhancements were unknown.

PG&E is concerned that the simultaneous implementation of the weighted least squares objective function, elimination of the multi-point CRR, the move to a single monthly allocation tier and a new treatment of the trading hub CRRs will result in significantly fewer CRR being allocated.

PG&E appreciates the numerical examples of the impact of the weighted least squares objective function vis-à-vis the max CRR objective function. The examples are sufficient to understand the objective function of weighted least squares but difficult to extrapolate to the CRR FNM.

PG&E requests that CAISO (with stakeholder input) select a few historical monthly or annual allocation tiers to be recalculated with the weighted least squares objective function and that the private results be communicated with each market participant so that stakeholders can better evaluate the potential impact of the weighted least squares objective function on their CRR portfolios. By only communicating the private results to each market participant, confidentiality of bids can be maintained.

PG&E reserves further comment on this issue until after the September 8 stakeholder meeting.

Sale of CRRs in the CRR Auction

PG&E supports CAISO's efforts to implement the sell feature in the CRR auction.

Modeling Approaches to Reinforce CRR Revenue Adequacy through Transmission Outages Consideration

PG&E believes that the issue of network capacity modeled in the CRR FNM during the monthly process needs to be re-examined. Given CAISO's desire for 12 months of operational experience under MRTU before establishing a permanent approach, PG&E recommends tabling this issue until after March 31, 2010.

Tracking of Long Term CRRs in the CRR System

PG&E supports enhancements of the CRR system to track LT CRRs and systematically reflect load migration for their entire duration.

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For follow-up or questions, please contact Dan Sparks at (415) 973-4130 or Glenn Goldbeck at (415) 973-3235.