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**To:** CRR Comments

**Subject:** PG&E Comments on August 8 White Paper Titled "Release of 2009 CRRs and the start-up of the MRTU Markets"

PG&E provides these comments in response to the August 8, 2008 CAISO whitepaper on the "Release of 2009 CRRs and the start-up of the MRTU Markets."

#### 1) Allocations of Q1 CRRs for 2009

It is anticipated that MRTU will go-live no sooner than February 1, 2009, as such, there are several options in developing CRRs for the first quarter/season of 2009. PG&E recommends that the already complex CRR process address this new complication in the most simplifying manner possible - the CRR allocation process used for Q1 2009 should reflect all three months and conform to the existing CRR tariff provisions. Specifically January 2009 should not be excluded from the verification and allocation process, Q1 CRRs should be allocated using the same source verification rules and using the same 3 month allocations used previously for all Year 1 seasonal CRRs. Considerations to separate out January for special treatment - necessary in the 2009 and future verification, allocation and long-term CRR processes - would add a lot of complexity for very little added value or accuracy and should be avoided.

#### 2) Auction of Q1 CRRs for 2009

Contrary to the concerns indicated above, auction CRRs do not have roll-over provisions (PNP, LT CRRs), eliminating January from the Q1 2009 season would be appropriate.

#### 3) Staggered Release of Long-Term CRRs

PG&E does not support process changes that would create conflicts with previously approved CAISO tariffs governing the release of LT-CRRs.

#### 4) Year 2 Tier Sequencing

The current tariff (Sections 36.8.3.5 through 36.8.3.5.4) states "Annual CRR Allocations for years beyond CRR Year One will be conducted in the following sequence of tiers:... Tier 1 – Priority Nomination Process... Tier LT... Tier 2... Tier 3."

The Year 2 Tier sequencing specified in the CAISO 2009 Annual CRR Allocation and Auction Schedule does not conform to the tariff. PG&E proposes a modified schedule to conform to the tariff:

#### Part Current Schedule

#### (Year 1 and 2) Proposed Schedule

Year 1 (Season 1) Proposed Schedule

Year 2 (Seasons 2, 3 & 4)

1	Tier 1	Tier 1	Tier 1
2	Tier 2	Tier 2	No allocation activity
3	Tier LT	Tier LT	Tier LT
4	Tier 3	No allocation activity	Tier 2
5	Auction	Tier 3	Tier 3
6	n/a	Auction	Auction

By PG&E's estimation, this proposed schedule could be implemented at a cost of approximately two additional weeks with respect to the current schedule.

CAISO has informally indicated their desire to file a tariff revision to allow for a different sequencing for Year 2 (Seasons 2, 3 and 4) which conforms to their current schedule. PG&E disagrees with the need to change the tariff to treat three seasons in Year 2 any differently than Season 1 in Year 2 or Year 3 and beyond. By adopting PG&E's revised schedule, CAISO can conform to the existing tariff without the need to make any filings to FERC.

Changing the Tier sequencing for Year 2 has strategic implications to market participants. As sequenced in the current tariff, market participants know their Tier LT results before nominating Tier 2 CRRs. This allows for maximum freedom and market intelligence in nominating Tiers 2 and 3 CRRs which establishes subsequent years' PNT.

Advantages are lost under the current schedule. For example, if a market participant unsuccessfully nominates a LT CRR in Year 2, it is unlikely that it can successfully nominate that CRR in future LT allocations. Since Year 2, Tiers 2 and 3 are not source validated, market participants can nominate alternate CRRs in Tiers 2 and 3. This sets up alternate long-term hedges for subsequent years. By forcing market participants to submit Tier 2 nominations before Tier LT results are known, CAISO is significantly reducing market participants' CRR alternatives in subsequent years. In addition, long-term market intelligence can be gained from the results of Tier LT which can be applied in Tier 2 if the tariff sequence is followed.

CAISO has also hinted that since the CRR schedule has been posted since April, the length of time that the mistake has been public justifies a tariff revision to conform to the schedule. CAISO is ultimately responsible for developing a schedule that adheres to its own tariff. CAISO justification for a tariff revision is that it made an error in posting a non-compliant CRR schedule. Rather than adjusting the schedule to be compliant with the tariff, CAISO wants to revise the tariff to be compliant with its schedule.

#### 5) 2009 FTR Auction

CAISO states in its August 8 White Paper "The CAISO does not anticipate a need to conduct another FTR auction for 2009 unless MRTU goes live after April 1." PG&E questions the accuracy of this statement.

From Section 9.5.2 to CAISO's MRTU Cutover and Reversion External Overview & Detail, "In the event that a new cutover date is scheduled beyond the time period in

which auction results exist [currently March 31, 2009], the CAISO will conduct a new FTR Auction for the remaining months."

CAISO's statements in the CRR White Paper and the MRTU Reversion plan ignore the time it takes to prepare and hold an FTR auction. Unlike the situation in 2008 where an MRTU delay allowed for suspension of CRR activities so CAISO and market participants could focus on an FTR auction, the current MRTU reversion plan addresses the scenario where MRTU has begun and is forced to revert back to current systems. In this scenario, market participants will be focused on CRR activities up to MRTU Go-Live.

Effective contingency planning should address the need for FTRs beyond March 31, 2009 in the event of reversion. Given the time it takes to conduct an FTR auction, PG&E feels that another FTR auction is necessary even if the Go-Live date is targeted for February 1, 2009 or March 1, 2009. Since the same personnel at CAISO and many market participants will participate in both CRR and FTR activities, the

need to adequately plan for an FTR auction is crucial.

#### 6) 2009 Annual CRR Allocation & Auction Schedule

PG&E is concerned that CAISO's focus is on potential Go-Live dates and not on conducting a CRR allocation that treats market participants fairly. CAISO has repeatedly stated the need to conform to its CRR schedule. This is necessary to allow MRTU to begin on February 1, 2009. However, CAISO has not announced any target date to begin MRTU.

PG&E is concerned that the CRR allocation process is being compromised based on these factors.

- Load Migration Issues – CAISO, the three UDCs and representatives of the ESPs held a stakeholder process to discuss implementing a load migration process. Staffs from CAISO and the UDCs have worked steadily over the past several months to agree on a process, provide data and test systems. However, sufficient time has not been allocated to validating the input data, reviewing the results and communicating the process to market participants. Given recent problems with the load migration data, PG&E feels it is important to address these issues prior to the beginning of the 2009 CRR Allocation process. The best time to correct problems in data or methodology is before the 2009 CRR Allocation process. Once the Allocation process begins, CAISO and market participants will be focused on CRR nominations. Furthermore, reversing any financial impacts due to incorrect or missing load migration calculations will be more difficult than correcting the load migration process at present.

PG&E no longer support the current load migration process because the results have not been sufficiently tested and validated. CAISO added data requirements on August 20. These new requirements do not insure data validity. Furthermore, providing the data requirements puts an unfair burden on the UDCs. All UDCs stated that they are submitting data based on manual and ad hoc processes. This is time consuming work which is being imposed on the UDCs at the worst possible time. All market participants (including the UDCs) should be currently focused on their own CRR analyses. By forcing PG&E to devote time and manpower to load migration issues, PG&E is being disadvantaged in the CRR process.

CAISO needs to devote sufficient time to address load migration problems. This has been a difficult process for all parties but it will only be made more difficult by deferring these issues.

- Full Network Model – PG&E is concerned that the CAISO may not provide sufficient time between the release of the updated full network model (FNM) and the opening of the Tier 1 nominations. PG&E requests that consistent with the 2008 CRR process, a minimum of 4 weeks should be provided between the release and Tier 1 so that sufficient confirmation and analysis can be performed to support an informed Tier 1 nomination process by LSEs. Given that as of August 21, 2008 the FNM has not been released, Tier 1 should September 22, 2008 at the earliest.
- Source Validation and Adjusted Load Metric – these basic data are still unknown to market participants. CAISO has not announced when these values will be communicated to the market.
- Uncertainty – CAISO should be commended for issuing this white paper, soliciting comments and conducting a stakeholder process. However, this only confirms that there is significant uncertainty regarding several issues. This uncertainty does not allow market participants to analyze their potential CRR portfolios. Until these issues are finalized, market participants cannot fully analyze their CRR nominations.

Beyond these concerns, PG&E fails to understand why issues related to CRRs are not given equal importance as Market Simulation problems and charge code validation. Market participants are being asked to simultaneously stakeholder this process, review the FNM, correct or clarify source validation amounts and in the case of UDCs, provide load migration data while still not having final rules and data to fully perform CRR analysis to guide their nominations. This would seem to justify a delay to allow market participants time to process new rules and data. However, CAISO's response has been to adhere to the schedule so as to meet a non-existent February 1 deadline.

When IFM and settlement problems arose in Market Simulation, CAISO responded by addressing the problems and adjusting the schedule accordingly even if this meant delaying the MRTU Go-Live date. In contrast, during the CRR process, problems have been addressed with an abbreviated stakeholder process, proposed tariff revisions and an unwillingness to allow market participants sufficient time to process changes and new data. Unlike Market Simulation where the results have no direct financial impact on participants, CRRs are actual obligations that will have real-world financial impacts after MRTU Go-Live.

PG&E is concerned that the CAISO's actions are compromising the CRR process and could have potential negative financial impacts on market participants.