

## Stakeholder Comments on CRR Issues

### PG&E Comments

Submitted by (name and phone number):	Company or entity:	Date Submitted:
<i>Brian Hitson 415-973-7720 Glenn Goldbeck 415-973-3235</i>	<i>Pacific Gas &amp; Electric Co.</i>	<i>4/8/08</i>

The CAISO is requesting initial written comments on the various CRR-related issues discussed at the April 1, 2008 stakeholder meeting. This template is offered as an easy guide for entities to submit comments; however, any participant should feel free to submit comments in any format. Submitted comments will be posted on the CAISO website unless participants expressly ask that their comments not be posted.

The Issues Papers and presentations discussed at the April 1 CRR Stakeholder meeting are posted at: <http://www.caiso.com/1b8c/1b8cdf25138a0.html>

**Stakeholder comments should be submitted by close of business on Tuesday, April 8, 2008 to: [CRRComments@caiso.com](mailto:CRRComments@caiso.com)**

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The CAISO offers the following questions as a structure for stakeholder comments:

#### A. CRR Year 2 Release Process

1. Does your company or entity have comments or suggestions on the historical reference period for verifying Season 1 source nominations in the next annual CRR release process?

Season 1 CRRs have never been allocated or auctioned to date, only Seasons 2-4 were part of the initial release process conducted during 2007. The source verification period for Seasons 2-4 was the calendar year 2006. While this same period may be used with no tariff changes for Season 1 CRRs, PG&E would *instead* recommend that the verification should be updated to the most recent date possible to better reflect current portfolio hedging needs. PG&E recommends the use of Q1 2008 as the source verification period for 2009 Season 1 CRRs.

2. Does your company or entity have comments or suggestions on whether CRR Seasons 2 and 3 should be treated as “Year 1” or “Year 2” seasons?

The 2008 Season 2 and 3 CRRs for ‘Year 1’ have been issued, the treatment of 2009 Season 2 and 3 are therefore appropriately treated as ‘Year 2’ CRRs. The CAISO should *not* consider these for treatment as ‘Year 1’ CRRs, this would be contrary to the approved tariff provisions and would require the development and implementation of a new source verification process. In addition, such treatment would undermine a key understanding and expectation provided by the CAISO during the development of the CRR process – that there would be durability in the CRR Priority Nomination Process (PNP) such that there would be a high degree of success associated with the renewal of CRRs. It is possible that stakeholder decisions made last year with respect to either relying on CRR annual renewals or conversion to LT-CRRs may have changed had there been some indication that the PNP may be weakened. Changing the PNP rules at this point would seemingly undermine this important CRR renewal promise and should not be considered.

3. Does your company or entity have any comments about the treatment of LT-CRRs?

Consistent with the logic outlined above, CRR and LT-CRRs that have been issued should be considered and treated in conformance with the MRTU tariffs. Since LT-CRRs for Season 1 have not been yet released, this process should reflect ‘Year 1’ tariff provisions. However since the initial LT-CRRs for Seasons 2-4 have been released, the following Seasons 2-4 LT-CRR processes should correctly reflect existing ‘Year 2’ tariff provisions.

## **B. CRR MW Granularity**

4. Please indicate the MW granularity that your company or entity prefers for 2009 CRRs:
  - a. 0.1 MW granularity
  - b. 0.01 MW granularity
  - c. 0.001 MW granularity

If possible, please explain the business reasons for your preference.

PG&E preference is to allow for accurate management of CRR and LT-CRRs. While recognizing that increased granularity increases the number of CRR that must be tracked, this is the preferable trade-off. Examples provided by the CASIO indicate that the use of 0.1 MW granularity for a sample 15mw Hub nomination would provide at most a 48% award, a 0.01 MW granularity a 91.5% award, and a 0.001 MW granularity providing a 99.9% result. Similar figures would be expected for CRR reassignments due to load migration. Given the

potential transaction losses of nearly 50% or 10% with Options a. or b. respectively, PG&E supports the adoption of Option c. (0.001 MW) as the seemingly better alternative, subject to some over-riding implementation obstacles that have yet to be identified and considered.

### **C. 30-Day Rule on Outage Scheduling**

5. Does your company or entity have comments or concerns about changing the 30-Day Rule to allow exemptions within a 24-hour period?

Revising the outage exception rule from a 'one calendar day' to a '24 hour period' is a more flexible and practical and is supported by PG&E.

6. Does your company or entity have any further comments about exemptions to the 30-Day Rule?

As indicated in previous comments to the CAISO and FERC, PG&E believes the 30 day outage criteria are not supported as currently defined. The CAISO's BPM definition of outages is largely unworkable because it is not feasible to schedule essentially all transmission outages 30 days in advance of the beginning of the calendar month in which the outage is to occur. One immediate problem is that outages must be scheduled according to weather conditions, and such conditions are not known weeks in advance. The CAISO is too inclusive with respect to the transmission lines for which 30 day-plus notices of outages must be provided. The CAISO's approach is to require the 30 day-plus advance notice of outage for any outage that could conceivably have any effect on congestion costs. However, that approach is not necessitated by revenue neutrality concerns. In light of the fact that it imposes an impossible burden on those maintaining the transmission system, it should be modified.

PG&E appreciates the CAISO considerations with respect to a conservative approach to CRR revenue adequacy, however there should be an appropriate balance between CRR revenue concerns and the impacts on actual management and implementation of transmission outages. While the CAISO has provided a process for PTOs to submit facilities that they wish to exempt from the 30-Day rule, it appears that such requests will not be considered during the first year of MRTU. PG&E recommends that the CAISO reconsider this approach and to more quickly allow for outage exemptions that are expected to have essentially no adverse impacts on congestion and CRR revenue adequacy.

### **D. Monthly CRR Eligibility for LSEs Without Verifiable Load Forecasts**

7. Please indicate and explain any preference how the CAISO should determine monthly CRR eligibility for an LSE in the absence of load forecasts:

- a) Use load data from the last five relevant months
- b) Use load data from the immediate previous month
- c) Use load data from the same month of the previous year
- d) Other suggestions?

The adoption of Option a) is preferred. This category of load will typically be driven by hydrological conditions that change significantly from month to month and from year to year, as such, the use of data from the immediate previous month (which in fact would be three months prior due to CRR data filing requirements) or the use of data from the same month last year would both poorly represent the actual loads. While PG&E would prefer to simply submit a load forecast to be used as the basis for the monthly CRR eligibility, in the alternative, the use of a five year average (five of the previous same months) would tend to mitigate the year-to-year hydro differences. Providing an LSE option to select one of the three (or more) alternatives could be considered, however without sufficient switching rules necessary to prevent adverse gaming behaviors, this alternative is less attractive than the simple adoption of Option a).

#### E. CRR Credit Policy Enhancements

8. What is your entity's view on the proposed options to mitigate the credit risk of CRR transfers associated with load migration as discussed in the CRR Credit Issue Paper?

Consistent with earlier comments and design recommendations, PG&E continues to advocate for strong credit requirements for CRR and LT-CRR participants. While certain aspects of the new credit policy enhancements will benefit from additional stakeholder review, PG&E is generally very supportive of the new credit requirements proposed by the CAISO.

9. What is your entity's view regarding enhancing the credit requirement calculation for holding Short-Term CRRs?

Support, with a recommended enhancement. The proposed enhancement to use the most significant of either the Historical Expected Value (the added measure) or the Auction Price results (the existing measure) in establishing credit requirements is appropriate and will provide an added measure of credit protection under circumstances where Auction participation may be thin and prices are anomalously unrepresentative of expected congestion costs. PG&E recommends that rather than wait for one year after the implementation of MRTU to implement this enhancement (as indicated by the CAISO in order to establish one years worth of historical LMP data), that the CAISO consider implementation concurrent with MRTU, using LMP Study 3C as proxies for historical data, consistent with Study 3C use in Credit Margin determinations.

10. Please comment on the CAISO's intent to re-file the full-term credit coverage for LT-CRRs with the proposed modified credit requirement calculation formula.

In concept PG&E can support this option, however such support is conditional. Additional clarification is needed with respect to the actual additional credit requirements and impacts that will be created for market participants – it is unclear to PG&E if this proposed change would have relatively modest credit impact, or would result in significantly large increases to the currently planned posting requirements. PG&E requests a preliminary CAISO impact assessment and additional stakeholder review prior to proceeding with this proposed tariff change.

11. What is your entity's view on whether to enhance the bidding requirement for auction participation? Should the full Credit Margin, or a portion of the Credit Margin be included in the bidding requirements? If a portion of the Credit Margin is preferred, what is your entity's suggestion on the appropriate percentage?

Support. Defaults without sufficient credit protections create cost concerns for all other market participants, CRR default concerns are heightened with particularly within the area of auction participation. PG&E supports increasing the minimum pre-auction credit requirements to properly reflect not only allowable bid prices but also to reflect the credit obligations associated with holding the to-be-acquired CRRs. The full Credit margin must be provided, to do otherwise, such as requiring only a portion of the Credit margin, would create the potential for a default short-fall that would unduly burden all other market participants.

12. Please comment on the proposed Tariff clarification to increase credit requirements for CRRs due to extraordinary circumstances such as extended outage or other circumstances that could dramatically change the risk profile of a CRR.

Conditionally Support. Increasing the credit requirements in response to exceptional events or circumstances in concept may be appropriate, however any such actions are a poor and likely untimely substitutes for effective a priori credit procedures and obligations. Furthermore, any consideration for such dynamic credit changes must be transparent, objective and clearly established within the tariff authorities of the CAISO.

13. Does your company or entity have comments on the concept for requiring corporate parent credit backing of affiliated market participants' Estimated Aggregated Liability? Is there merit in this potential change? Should this concept apply to other forms of collateral or just guarantees? Would this concept present regulatory difficulties for affected entities?

PG&E neither supports nor opposes this option; however PG&E opposes any implementation until a very thorough stakeholder process has been conducted. This element of the proposal is seemingly complex and creates many affiliated issues that demand diligent assessments. Such concerns may include possible regulatory prohibitions. PG&E recommends that the CAISO initiate a dedicated stakeholder process to examine and further develop or revise this credit concept.

#### **F. Other CRR Issues**

14. Does your company or entity have further comments or suggestions on these various CRR issues?

In the overview slides presented at the 4/1/08 CRR stakeholder meeting, the CAISO outlined the anticipated timeline for 2009 CRR release process. The 2009 Annual CRR Auction is set to begin on November 7 and end on November 11, 2008, however November 11 is a federal, state, and PG&E holiday. PG&E requests that the Auction close date be extended to November 12, 2008.