

## Stakeholder Comments Template

### Subject: May 18, 2007 Congestion Revenue Rights (CRR) Issues Paper

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the following CRR topics covered in the May 18, 2007 CRR Issues Paper. Upon completion of this template please submit (in MS Word) to [CRRComments@caiso.com](mailto:CRRComments@caiso.com). Submissions are requested by close of business on Monday June 4, 2007.

- 1) **Transfer of CRRs between LSEs to reflect load migration.**
- 2) **Ensuring consistent LSE load forecasts used for CRR eligibility and RA requirements.**
- 3) **Monthly transmission outage modeling in CRR network model.**
- 4) **Provision to facilitate early release of Converted Rights (CVR).**

Please submit your comments to the following questions for each topic in the spaces indicated.

1) **Transfer of CRRs between LSEs to reflect load migration.**

a. **Requirement to transfer a pro-rata share of CRRs' value**

SCE is not sure what is meant by the term “value” in this context. If this is to imply that when load migrates, the load losing entity will be required to transfer a pro-rata share of the actual CRRs that they have received from an allocation adjusted for prior load migration, then SCE agrees with the statement. However, if “value” is meant to convey some form of financial equivalence, then SCE notes that such “value” would be in the eye of the beholder. That is, those rights that serve as a valuable hedge for one entity may be completely unrelated to the congestion risk faced by another entity. In such a circumstance, a “pro-rata share of CRRs’ value” would need to address to whom the value is ascribed.

b. **Objectives and principles of transfers**

SCE generally agrees with the objectives and principles listed in the CRR Issues Paper (with the exception noted in part a. above and the potential for a required transfer of a “financial equivalent” as discussed in principle #4).

Principle #4 states,

LSEs receiving CRRs need to qualify as Candidate CRR Holders or already be CRR Holders. This may require some transfers to be financial equivalents instead of actual CRRs.

SCE agrees with the first sentence. That is, to be eligible to receive CRRs due to load migration, the load gaining entity must qualify as a Candidate CRR Holder. This would require compliance with the CAISO tariff. SCE is concerned with the potential requirement to transfer a “financial equivalent” if the load gaining LSE is not a qualified Candidate CRR Holder. As will be discussed in section c. below, SCE believes that the transfer of a financial equivalent may necessitate the posting or credit by the load gaining entity. If this is necessary, SCE does not see a mechanism that would allow the CAISO to apply the CRR credit requirements to an entity that is not a qualified Candidate CRR Holder.

If, the CAISO does allow the transfer of “financial equivalents” to an entity that is not a qualified Candidate CRR holder, then SCE notes that the potential outcome with respect to #4 (LSEs receiving CRRs need to qualify as Candidate CRR Holders or already be CRR Holders. This may require some transfers to be financial equivalents instead of actual CRRs.) places a higher importance on #9 (The process for transfer cannot advantage or disadvantage either the losing or gaining LSE. Financial and actual transfers must be equivalent, and neither LSE should be forced into an undesirable option.). Simply put, if a load losing entity is forced to transfer a “financial equivalent”, the structure of the financial equivalent is very important. Such a mechanism can not put the load losing entity nor the load gaining entity in a position that will transfer unwanted risk. This would be the case if for example, the “financial equivalent” is based upon a forecast of future CRR revenue (e.g. the auction price). In such a situation, the load gaining LSE would be receiving a fixed payment that may or may not cover the actual congestion exposure. In such a situation, the load gaining (or load losing) entity may prefer to a transfer of the CRR settlement.

### **c. Transfers of CRRs as MW values vs. financial equivalent**

Consistent with section b. above, SCE believes that the primary transfer mechanism should be to transfer the actual CRRs. Any financial transfer option must be selected only with the agreement of both the load losing and the load gaining entities. If, the transfer of a “financial equivalent” is required, then the default transfer should be the transfer of the settlement value of the underlying CRRs. Any option other than the transfer of the settlement value would require a mutual agreement between the entity losing load and the entity gaining load.

If the transfer of the settlement value of the underlying CRRs is selected, then the credit requirements associated with the underlying CRRs should transfer from the load losing entity to the load gaining entity. It would be unreasonable for the load losing entity to continue to bear the credit obligation of a right that they will no longer benefit from.

**d. Load metric**

SCE agrees that the load metrics proposed by the CAISO are appropriate. We believe that this is the most effective and simple way to develop the data necessary to track load migration. SCE notes however, that the load metric data may need to be collected more than annually to account for new customers (see item h. below)

**e. Sources of data**

SCE agrees that the load metric data should come from the IUOs. SCE further agrees that the source of data for actual load transfers is still an open issue that needs further discussion to identify and evaluate the possible options.

**f. Frequency of tracking transfers**

SCE believes that the tracking of load migration should be performed on a monthly basis. This will simplify the process and could be coordinated with the data transfers necessary to account for new customers (see item h. below)

**g. Eligibility of transferred CRRs for renewal in Priority Tier**

The development of the priority nomination tier was to allow for entities to continue to nominate those rights that were obtained in prior years. In particular, this process was developed to address the fact that the demonstration of a need from the resource perspective is limited to year one. By allowing a priority nomination, it allowed entities the ability to continue to nominate those resources that they had demonstrated to need in year one. If the CRRs associated with load migration now transfer that priority nomination to the load gaining entity, we have move significantly from the original intent. Additionally, there is no reason to believe that the load losing entity will not still desire those rights to hedge their remaining load from congestion associated with their existing resources.

Based on these observations, SCE believes that any rights transferred due to load migration should not be eligible for priority nomination by the load gaining entity. The rights instead should be available for request in the tiers following the priority nomination process.

**h. How to count new customers**

In theory, customers that initiate service after an annual allocation process should not be subject to transfers of CRRs should they migrate prior to the next annual allocation. The reason is that the prior annual allocation was based upon historical load. Since the customer did not have historical load, the load serving entity did not receive an allocation of CRRs based upon that customer. However, SCE recognizes that tracking load migration, customer load, and customer count in addition to tracking the initiation date of service for each customer would be unreasonably burdensome on the CAISO and the IOUs. Therefore, SCE recommends that the

CAISO obtain updates of the customer count on a regular basis (we recommend monthly to coordinate with the monthly transfer of CRRs recommended in item f. above.) and re-calculating the CRRs per customer. This revised number would then be utilized to transfer CRRs upon load migration regardless of the particular customers initial date of service. Here is a simple example.

Suppose that the annual allocation resulted in and LSE obtaining 10 CRRs for 100 Residential customers. This results in 0.1 CRRs per customer. Further suppose that one month after the allocation, an incremental 15 new residential customers take service. The IOU would send a new count of 115 Residential customers to the CAISO and the CAISO would in turn calculate that each customer is now entitled to 0.087 CRRs (10/115).

**i. Other comments not covered by topics itemized above**

SCE believes that PG&E's proposal to create an eligible and ineligible class of long-term CRRs deserves further stakeholder examination. SCE believes that this should be a topic at the next stakeholder meeting.

**2) Ensuring consistent LSE load forecasts used for CRR Eligibility and RA requirements.**

**a. Use of year-ahead and month-ahead RA forecast for CPUC jurisdictional LSEs.**

SCE strongly supports utilizing the same forecast for both RA and for the monthly CRR allocation. SCE agrees that the natural tension between the incentive to under-forecast for RA purposes while over-forecasting for CRR purposes will tend to produce more accurate forecasts. SCE does however recommend that the CAISO utilize the annual RA forecast rather than the monthly RA forecast. The reason is that currently, the local area requirements are based upon the annual forecast. There is no monthly true-up process for local requirements. Therefore, there is currently an incentive to under-forecast RA on an annual basis (to avoid the cost of local capacity) and then true-up the forecast on a monthly basis. This incentive will be exacerbated if the monthly RA forecast is also used to allocate monthly CRRs. If instead, the monthly CRR allocation is based on the annual RA forecast, the two incentives will again tend to produce more accurate forecasts. In addition, since the CAISO will know the load migration for each LSE between the annual allocation and the monthly allocation, the CAISO could then adjust the annual forecast for known load migration to paint a reasonable picture of the monthly load for CRR allocation.

**b. How to adjust load duration curve data to be consistent with CEC peak data.**

SCE believes that the CAISO should use the data provided for the annual allocation as a proxy for adjusting the CEC peak data. That is, the CAISO will utilize a load duration curve for each season, on and off-peak for each LSE to determine eligible CRR quantities in the annual allocation process. The CAISO could develop a ratio of the load that is only exceeded in 0.5% of the hours for that quarter and TOU. This ratio would then be applied to the CEC peak data

forecast for each month (within the respective quarter) and by TOU to arrive at the eligible load quantity for the monthly allocation. Here is a simple example:

Suppose in the annual allocation process, an LSE had a peak load in Quarter 2 On-Peak of 2,000 MWs and the load duration curve observation shows that the load exceeded only 0.5% of the time is 1,600 MWs. The CAISO would then calculate the ratio ( $1,600 / 2,000 = 80\%$ ) which would then be applied to each monthly CEC load forecast for the on-peak within the second quarter (i.e. April, May, June). Based on this, suppose that the CEC peak forecast for this LSE for May is 1,200 MWs. The CAISO would apply the ratio ( $1,200 * 80\% = 960$ ) to arrive at the eligible quantity for the monthly CRR allocation process.

**c. How to address the different forecast methods between CPUC and non-CPUC jurisdictional LSEs?**

SCE agrees that the methodology employed by all LSEs should be sufficiently similar and contain similar assumptions. SCE also believes that if the forecast for CRRs utilizes the same forecast as that for RA, then most of these concerns will be addressed by the simple incentives presented to each LSE.

**d. Other comments not covered by topics itemized above**

**3) Modeling of transmission outages**

**a. How to specify which facilities and/or outages are categorized as “significant” outages.**

SCE believes it is incumbent on CAISO’s office of Outage Coordination perform an immediate assessment of the proposal submitted by the Transmission Maintenance Coordinating Committee (TMCC) on February 12, 2007 in order to avoid the unwarranted categorizing of all 220 kV and 500 kV line outages as “significant”; and make a good faith effort to work with the TMCC to resolve the expressed concerns of all Participating Transmission Owners related to this matter.

**b. How to incorporate “significant” outages in the CRR network model.**

SCE can not evaluate this topic until the term of “significant” has been defined. Generically, we agree with the CAISO that some evaluation of impact on the revenue adequacy of CRRs should be performed to determine if an outage is “significant”. We look forward to working with the CAISO and stakeholders to better define this topic.

**c. How to reduce grid capacity to account for outages that are not known at least 30 days in advance.**

SCE does not see how any CRR process can accommodate outages that are not known at the time of the allocation and auction process.

**d. How to account for the lack of information on “significant” outages for the Feb 2008 monthly allocation auction.**

SCE believes that this single month is an anomaly and should be treated as such. It would not be reasonable to require outage plans several months in advance for this one occasion. In this case, perhaps the CAISO should apply an average outage based upon historical experience.

**e. Please comment on the objective to fully fund CRRs without reliance on CRR auction revenues.**

SCE agrees that CRRs should be fully funded without the need to depend upon the auction revenues. Auction revenues should serve as a reserve to pay CRR holders in the event that it is needed but should not serve as a planned funding mechanism.

**f. Other comments not covered by topics itemized above**

**4) Please comment on the Converted Rights proposal.**

SCE does not object to the early retirement of a CVR in favor of a CRR generally. However, the current proposal provides undue preferential treatment to a CVR holder that employs this proposal. It is SCE's understanding that as written, the proposal would allow the following:

- 1) The CVR holder would relinquish their CVR in exchange for the right to request CRRs
- 2) Any CRR granted could then be re-requested in the priority nomination process
- 3) If between 2008 and 2010, the CVR holder decides that the CRR is not as desirable as their CVR, they could then exchange the right to a priority nomination for their current CRR for a priority nomination of the source and sink formerly served by their CVR
- 4) All of these transactions would be subject to SFT

SCE does not believe that a CVR holder should be able to relinquish a CVR in favor of a priority to rights for a different source and or sink. If the CVR holder were to relinquish the CVR in favor of a priority right to a CRR from the same source and sink, then SCE believes that the current tariff will already allow for such an action. Additionally, item 3 provides optionality to the CVR holder that is not offered to other CRR holders. That is, under this proposal, the CVR holder has the option in the priority nomination process of requesting their current set of rights or a set of CRR rights that represent their now relinquished CVR. SCE does not believe that such treatment is warranted. SCE believes that if an entity were to relinquish a CVR in exchange for CRRs that do not utilize the same source sink pair as the CVR, then they should not be allowed to request the source sink pair of the CVR in a subsequent priority nomination process. Like

other LSEs the CVR holder would need to go to the allocation tiers after the priority nomination process to obtain rights other than those that they currently hold.