Stakeholder Comments on

CRR Issues

Submitted by (name and phone number):	Company or entity:	Date Submitted:
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The CAISO requests additional written comments on the Straw Proposals for various CRR-related issues discussed during the April 21, 2008 conference call.

The Straw Proposal Papers and presentations are posted at:
http://www.caiso.com/1b8c/1b8cdf25138a0.html

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.

Stakeholder comments should be submitted by close of business on Monday, April 28, 2008 to: CRRComments@caiso.com

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Please offer any comments on the following Straw Proposals:

Introduction:

SCE appreciates the opportunity to submit comments regarding the CRR Issues and Credit Policy Enhancements. SCE will respond to the CAISO's specific questions below assuming a Fall 2008 MRTU start-up.

A. CRR Year 2 Release Process

1. Using Season 1 2007 as the historical reference period for verifying Season 1 source nominations in the next annual CRR release process.

For Season 1 (Q1 2009) source nominations in the next annual CRR release process, SCE prefers utilizing the latest Q1 2008 historical values for its showing, but does not oppose the use of Q1 2007 historical reference period.

2. Treating CRR Seasons 2 and 3 as "Year 2" seasons that are eligible for the Priority Nomination Process in the next annual CRR release process.

SCE supports the CAISO's proposal in treating Q2 and Q3 as part of "Year 2" seasons that are eligible for the Priority Nomination Process in the next annual CRR release process. SCE believes that this is a viable approach to eliminate the need for a "redo" to the initial CRR allocations for Q2 and Q3. Moreover, market participants will be able to apply their first two tiers of allocated CRRs for Q2 and Q3 2008 as candidates for their PNP nominations for 2009 CRRs, such that tariff languages are already in place to address the methodology for handling "Year 2" process.

3. Confirming that Season 4 CRRs will be eligible for the Priority Nomination Process in the next annual CRR release process.

SCE supports the CAISO's proposal in recognizing Q4 2008 CRRs to be eligible for the Priority Nomination Process for the next annual CRR release process.

4. Confirming that Q1 LT-CRRs should be treated under the "Year 1" nomination limit, and Q2-4 LT-CRRs should be treated under "Year 2" nomination limit in the next annual CRR release process.

SCE supports the CAISO's proposal in recognizing Q1 LT-CRRs to be treated as "Year 1" nomination limit and Q2-4 to be treated under the "Year 2" nomination limit in the next annual CRR release process.

B. CRR MW Granularity

5. Adopt the 0.001 MW level (1kW) for the next annual release of CRRs.

SCE believes the "0.01 MW" granularity level is adequate for purposes of recording and tracking CRR holdings by CRR Holders for rounding small denomination. Moving the CRR MW Granularity to "0.001 MW" level may result in administrative burden to track CRRs at 1kW level. Nevertheless, SCE does not oppose the "0.001 MW" granularity level.

In addition, SCE would like to seek clarification from the CAISO that the .0001 MW level applies only to recording and tracking CRRs and the .1 MW level still applies to the CRR nomination and auction processes.

C. 30-Day Rule on Outage Scheduling

6. Modifying the 30-Day Rule so that outages initiated and completed within a 24-hour period are exempt (instead of one day).

SCE appreciates the opportunity to work with the CAISO on the Transmission Maintenance issues being impacted by the 30-Day Rule.

Currently the ISO Outage BPM lists three criteria for when outages must be scheduled with the CAISO at least 30-days prior to the month in which they are planned to occur. SCE supports the CAISO proposed white paper dated April 14, 2008 which supports a modification to an exemption for outages that are planned to be initiated and completed within 24-hours (rather than a single calendar day).

SCE shared at the April 1, 2008 stakeholder meeting on CRRs and in previous stakeholder comments, that SCE supports this language change because frequently transmission maintenance work is scheduled in off peak periods when there is less impact on grid reliability and on the ability to service load during peak hours. Many outages are scheduled late at night and run over night. Allowing for a 24-hour duration will ensure that the PTOs can perform maintenance in the most reliable fashion and with the least impact on serving load.

SCE understand that the ISO is not proposing any other changes to the 30-day Rule on Outage Scheduling.

SCE also appreciates the ISO focus on this at this time because this clarity will contribute toward ensuring MRTU readiness for the PTOs.

By way of clarification, from the stakeholder conference call on April 21, 2008, SCE understands that the CAISO plans to consolidate language in the CRR BPM; however, SCE notes that the April 14, 2008 whitepaper indicates the changes will be in the next revision of the BPM for Outage Management. Which BPM will the language be in?

SCE appreciates the ISO's efforts on this issue and looks forward to reviewing the draft BPM and draft tariff language.

7. Eliminating the exemption criteria that are detailed in Section 10.3.1 of the BPM for CRRs until actual LMP market experience unfolds.

8. Developing an analytical methodology for assessing the impacts of outages on CRR revenue adequacy, and assessing with stakeholders whether revisions to the 30-day rule exemption policy are appropriate.

D. Monthly CRR Eligibility for LSEs Without Verifiable Load Forecasts

9. In the absence of a verifiable load forecast, using the historical load of the same month from the previous five years.

E. CRR Credit Policy Enhancements

As documented in its April 3rd, 2008 comments on the ISO's proposal for enhancements to its CRR credit policy, SCE strongly believes that the approximately $80/MM default in PJM highlights the need to have robust and dynamic credit requirements for CRR holders. While SCE views the proposed enhancements described in the CAISO's April 14th 2008 congestion revenue rights credit policy enhancements straw proposal as a positive starting point, SCE feels that the CAISO proposals do not go far enough to protect the overall market from a default similar to what happened in PJM. Importantly, we feel strongly that enhanced credit rules **must be in place PRIOR to running the next allocation and auction process**

Consistent with our April 3rd comments, the credit requirements for CRR's need to be dynamically tracked, monitored, and enhanced when certain predefined conditions arise. Such predefined conditions include but are not limited to: (1) the sale of a CRR (2) the transfer of a CRR due to load migration, and (3) dramatic changes between actual and expected congestion prices. It is simply unacceptable to take an initial "snapshot" based on historical results, and then not track and mark to market credit based on the actual performance of a CRR. It is SCE's understanding that the CAISO has the authority to do this but has no clear obligation to track performance, and, stakeholders have no clear guidance on what their future collateral requirements may turn out to be. Again SCE requests that the CAISO work with stakeholders to developed rules that not only monitors the collateral backing each CRR, but also incorporate these rules into the CAISO determination of a participants Estimated Aggregated Liability (EAL).

SCE recognizes the issue of credit requirements for CRR holders is complicated and likewise an end state solution may be complex and time consuming. Nevertheless, the CAISO has a fiduciary responsibility to protect customers from CRR defaults. SCE supports the proposed credit enhancements in the straw proposal as a good first step and requests that the CAISO implement the enhancements into the **CRR system prior to the beginning of the 2009 annual process (i.e. the allocation and auction process that will take place in the summer and fall of**

2008 including any monthly allocations and auctions that may take place prior to the annual process.) Given the recent events that occurred in PJM and the identified deficiencies in CAISO's current CRR credit requirements, SCE feels that not having these initial enhancements incorporated into the CRR system by the 2009 annual auction process is not good business practice. The CAISO should work with stakeholders to resolve any remaining outstanding issues to the proposed enhancements and work with its software vendor to get these enhancements implemented by summer 2008.

Finally, SCE remains steadfast in its position that marking CRR's to actual congestion prices is necessary to protect market participants from CRR defaults when the CRRs did not perform as expected at the time of the auction. While we propose a methodology below as a starting point, SCE requests that the CAISO work with stakeholders over the next few months to develop a methodology for marking to market CRR's with a target effective of the start of MRTU. SCE looks forward to working with the CAISO and other stakeholders in developing this methodology.

10.
    a. Disallow netting between allocated CRRs and auctioned CRRs in the credit holding requirement calculation.

Consistent with SCE's comments submitted on April 3rd, 2008, SCE is supportive of the proposal to disallow netting between allocated CRR's and auctioned CRR in the credit requirement calculation. SCE strongly believes that a LSE must support the credit of an allocated CRR for the full duration of the contract.

    b. Require LSEs selling allocated CRRs to maintain sufficient credit coverage to cover the counterflow CRRs that offset the CRRs being sold.

SCE supports the CAISO's proposal to require LSE's selling allocated CRR's to maintain sufficient credit coverage to cover the counter-flow CRRs that offset the CRR being sold. In addition, SCE would like to see language in the CAISO proposal that clearly states the conditions of sale for each of the two parties involved in the transaction. Specifically, SCE would like to see language that specifies that prior to the sale being finalized the LSE selling and the entity purchasing the allocated CRR must post sufficient credit to cover the CRR for the entire duration of the contract. Also, SCE continues to insist that the CAISO develop a mark to market methodology that looks at current congestion prices instead of a historical snap-shot. Without marking CRR's to current congestion prices SCE is concerned that entities can sell any or all of there allocated CRR's in the auction and then 'walk away' from the ISO market without having sufficient credit to cover future counter flow resulting from the CRR sale. It is SCE's position that the CAISO should use the greater of (more conservative) the current "marked" value of the CRR instead or the historical/auction price value in determining credit requirement for the sale.

11. Including historical LMPs (a year after MRTU start-up) to improve the credit requirement for holding short-term CRRs.

SCE supports the CAISO's proposal to include the historical expected value of the CRR into the CRR holding requirement credit calculation when determining the CRR holder's initial credit requirement. Consistent with SCE's comments above the CAISO must, on a regular basis, dynamically monitor and track a CRR holder's credit position. We feel that just adding the historical expected auction value does not go far enough to protect the CAISO market from instances where actual congestion cost dramatically deviate from historical values, as was the case in PJM. The CAISO must develop a mark to market methodology that reevaluates the credit holding requirements for CRRs based on the market's current expectation of future congestion prices. SCE does not accept CAISO's argument that due to the seasonality of Hydro Electric power marking CRR's to current congestion prices is not an accurate indication of a CRR's current and future value. SCE feels that the CAISO can account for seasonality and still mark to market CRR's to current congestion prices and provides a proposal at the end of these comments.

12. Adding a full credit margin to the bidding requirement for participation in CRR auctions.

SCE supports the CAISO's proposal to include the full credit margin in the bidding requirement for CRR auction participation. The incorporation of the full credit margin into the bidding requirement calculation should prevent a participant from being awarded CRR's and then immediately defaulting because of the CRR holding requirement (i.e. collateral call) associated with their CRR awards.

F. Other CRR Issues

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

SCE recommends the following methodology for "marking CRR's" based on actual congestion prices. SCE acknowledges this methodology is only a proxy to determine the credit exposure resulting from the market's future expectation of congestion prices for a forward period. SCE encourages the CAISO to continue to work with market participants to further develop a CRR mark-to-market methodology. We feel the methodology below could be implemented quickly and will provide much better credit support than that which is currently in place. But this methodology is not perfect, and we remain open to improving the methodology based on marking CRRs based on expected future prices, rather than the look-back proposed here. Typically, other commodities have a "forward curve" that can be used for marking-to-market, but at this time no such "forward curve" exists for CRRs. If such a curve does materialize, or a proxy for this curve can be developed, ultimately the CAISO should use this information to mark the CRRs.

We remain concerned that the current credit rules take only a "snapshot" of the CRR value at the time of the auction. This methodology exposes the ISO's customers to the same form of default that happened in PJM. That is, if a CRR initially required little or no collateral, but then actual performance indicates the CRR is losing money, the holder of the CRR could, under current CAISO rules, simply transfer/"sell" this "liability CRR" to a different company, and the receiving company would not be obligated to post additional collateral. If this receiving company cannot pay for the liability, the CAISO will have a default that is not backed by any collateral.

To help avoid this outcome, it is necessary that the CAISO have a systematic methodology of "remarking" the values of CRR's. We propose the following:

The CAISO will compare the auction value of the CRR to the realize performance of a CRR during a 14-day look-back period. Using the same "Credit Margin" methodology currently in place, on a daily basis the CAISO will re-mark the CRR's based on a comparison of the collateral given the auction price or the collateral that would be required if the auction had cleared based on the realized value using a 14-day rolling average. The daily collateral requirement for the CRR will be the greater of these two values. To avoid "seasonality effects" (i.e. realized prices are not indicative of prices during different seasons) the recalculation of collateral will being one month prior to the beginning of the CRR's delivery month and will continue to be recalculated daily through the end of the CRR's delivery period.

Example: A party holds a 1 MW CRR for July, August and September. The annual auction price for this CRR was equivalent to $6/MWh. Assume this CRR was purchased in the Annual auction and thus we do not have separate prices by month, but rather just a single clearing price for all three months. The Credit Margin for this same CRR was $5.50 and thus no collateral was initially required.

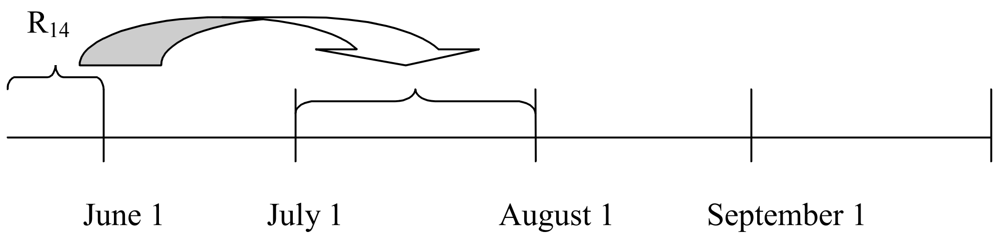
On June 1, the CAISO will determine a new collateral requirement for the CRR that begins **delivery in July**. The CASIO will look at realized prices for this same CRR over the previous 15 days (May 18 – 31). For example, assume that during this May period the realized performance (the net payout of the CRR during this period divided by the total hours of delivery in the period) was $5/MW. Let **$R_{14}$ denote the rolling 14 day realized value** of the CRR, in this example $5/MW. Because this realized value is below the original auction value, the realized value is used to recalculate the collateral requirement for the July CRR.

Thus, one month prior to delivery, the CAISO begins the process of updating collateral requirements for the CRR. That is, collateral is now the greater of the original requirement or the recalculated value R_{14} minus the Credit Margin, ($5/MW - $5.50/MW) = $0.50. The total collateral requirement become now:

($0.50/MW)*(Number of MWs of the CRR)*(The remaining delivery hours in July)

Graphically:

Application on June 1

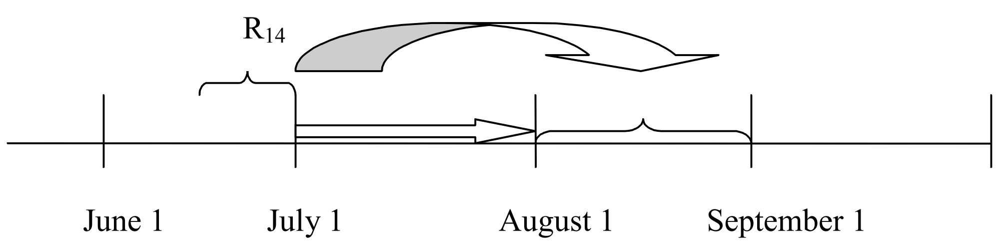


On June 1, R_{14} is calculated based on realized prices in the last two weeks of May. R_{14} is the used to determine collateral requirements for July CRRs. Parties may have to post additional collateral for July CRRs at this time and possibly every day leading up to July 1.

R_{14} is recalculated on a daily basis and thus credit is recalculated for the July CRR's on a daily basis, even before the CRR actually begins delivery. If at any time R_{14} indicates additional collateral is required, the holder of the CRR must post additional collateral. The CAISO always uses the value of either R_{14} or the original auction price that results in the greatest collateral requirement.

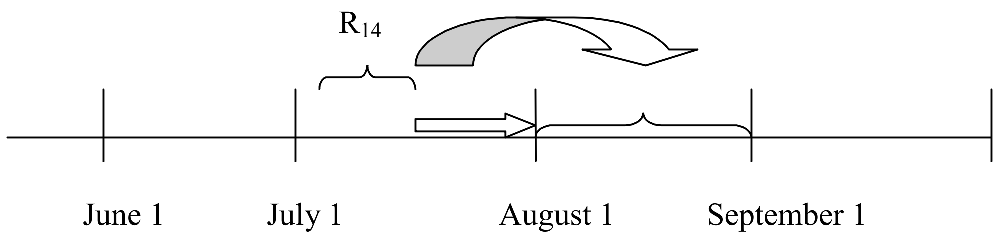
On July 1, R_{14} is used to recalculate collateral requirements **for both the July CRR and the August CRR**. As the month of July progresses, R_{14} is recalculated daily and applied to both the July and August CRR, however, the collateral required for July takes into account the remaining delivery hours in July, and thus for a constant R_{14} collateral requirements on the July CRR become smaller as the month progresses. The same process continues so that on August 1, R_{14} is applied to both the August and the September CRR's.

Application on July 1



On July 1, R_{14} is calculated based on realized prices in the last two weeks of June. R_{14} continues to be used to determine collateral requirements for July CRRs and is now used to update collateral requirements for August CRRs.

Application during July



Note that R_{14} is recalculated on a daily basis. During July, R_{14} is calculated based on realized prices during the previous two weeks. R_{14} is used to calculate collateral for the remaining delivery of the July CRR as well as the August CRR.

SCE recognizes that this form of daily collateral marking and application of R_{14} will require automation by the CAISO. We urge the CAISO to develop systems that can perform this type of calculation as soon as practical and to implement this type of market for all issued CRRs.

We also note that the CAISO receives additional CRR auction prices every month as part of the monthly CRR process. At a minimum, the CAISO should consider these monthly auction prices and remark credit monthly based on the more conservative value either the annual auction results or the monthly results. Ideally, the CAISO would choose the most conservative value among the monthly auction, annual auction and the R_{14} price. We also note that for the initial CRR process the CASIO has LMP simulation results, and these values could also be considered. The CAISO could also use the monthly auction price for July, for example, to update the credit requirements for July, August and September until the additional monthly auction prices become available. As noted above we remain concerned about sales or transfers of CRR's. Under the R_{14} methodology collateral is recalculated on a daily basis, and thus we believe this approach largely addresses our concerns over the need to calculate new collateral every time a CRR is sold or transferred.