

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

Please offer any comments on the following Straw Proposals:

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 Using Season 1 2007 as the historical reference period for verifying Season 1 source nominations in the next annual CRR release process.

The use of 2007 over 2006 as the source verification period for Season 1 does little to overcome the deficiencies of the allocation process, which are best remedied by implementation of a full auction as soon as possible after successful MRTU launch.

If Q1 2007 is to be the source verification period for the Season 1 allocation, the Trading Hub weighting factors should be updated as well to reflect Q1 2007 data.

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.

SDG&E has no objection to treating Seasons 2 and 3 as Year 2 seasons, however Trading Hub weight factors should be updated to reflect 2007 data.

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

SDG&E has no objection to the PNP renewal process for Season 4 CRRs, however Trading Hub weight factors should be updated to reflect 2007 data. The ISO should include provisions for MRTU launch dates other than October 1, 2008 in the Season 4 CRR rules.

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.

SDG&E has no objection using Year 1 nomination limits for Q1 LT-CRRs and Year 2 limits on Q2-4 LT_CRRs.

B. CRR MW Granularity

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

The need to adopt the 0.001 MW level is an example of the complexity that could be avoided if the ISO would adopt of full auction and allocate Auction Revenue Rights as have other LMP markets.

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).

SDG&E has no objection to this provision.

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

SDG&E has no objection to this provision.

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.

SDG&E has no objection to this provision.

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.

SDG&E has no objection to this provision so long as the rule is permanent.

E. CRR Credit Policy Enhancements

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

Disallowing netting arrangements against allocated and auctioned CRR's (including bilateral financial trades if possible) does not follow prevalent practices in clearing arrangements utilized in financial markets / commodity markets and could potentially increase the overall credit costs (no netting arrangements facilitated). The ISO should focus on creating a clearing house where initial and bilateral acquired arrangements are cleared through a central platform. The initial value of the allocated CRRs and "fair value" of auctioned / bilateral acquired CRRs should not be confused - but should rather stress the importance of assigning an initial value of the allocated CRRs (forward basis spread values).

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

Again, the physical day ahead exposure is controlled through physical margining arrangements while the Net financial forward CRR position should be subject to prevalent clearing practices (margining requirements) facilitating the possibility to report transacted bilateral arrangements to a central clearing house.

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

The margining calculations and clearing house for CRRs should be established by the ISO to facilitate a central depository and clearing house for forward CRRs. The historical LMPs and use of time series need to be standardized to provide volatility input to the calculation of margining requirements of CRRs. Exchanges and Clearing houses typically use the @SPAN model to facilitate margining calculations for market participants / clearing house members.

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

SDG&E has no objection to this provision as long as credit margining requirements are well defined and objectively calculated.

F. Other CRR Issues

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

A number of CRR issues that the ISO is facing in the 2009 CRR allocation and auction are symptomatic of an allocation approach for the hedging of LSE congestion costs in an LMP market. SDG&E has always advocated an auction approach with allocation of the auction revenues to LSEs. The auction approach has been successfully implemented in mature LMP markets and should remain on the CAISO radar screen as the eventual CRR design for the California LMP market. Once the CAISO has a year of operating experience following the launch of MRTU, it should initiate the process to migrate from an allocation market to an auction market.

SDG&E continues to believe that the current CRR rules which assign a CRR priority based on a one-year snapshot of an LSE's portfolio is flawed. Under the current rules, a resource that falls within the snapshot period receives a CRR priority that can be renewed indefinitely, even after the initial term of the contract has expired. To correct this deficiency, SDG&E urges the CAISO to amend the source verification process by prohibiting renewal of a CRR acquired through the source-verification process once the original term of the underlying commercial arrangement expires. In particular, the CRRs associated with the DWR contracts, which were never executed by the IOUs to which they were allocated, should not be renewable once the original contract term expires. To reestablish a CRR for a contract whose term has expired, an LSE would simply nominate it again in Tier 2 or Tier 3. Any CRR awarded thereafter would qualify for PNP or LT-CRR nomination.