

**COMMENTS OF SEMPRA ENERGY SOLUTIONS  
ON COORDINATING CRR ALLOCATIONS WITH  
RESOURCE ADEQUACY IMPORT ALLOCATIONS**

Submitted March 9, 2007

On February 9, 2007, Sempra Energy Solutions, LLC (SES) submitted the Comments contained in Attachment A to the CAISO in the Interim Reliability Requirements Program (IRRP) stakeholder process. SES's Comments address a phenomenon occasioned by the "seams" between Resource Adequacy capacity requirements and energy scheduling congestion risk. It is unclear where this issue is most appropriately addressed. Consequently, SES offers the February 9 Comments in this CRR stakeholder review process, as well as in the Resource Adequacy Import Allocation stakeholder comment process.

SES believes that the Resource Adequacy value of firm energy import contracts has been conclusively demonstrated. But for LSEs like SES to get full Resource Adequacy value from such a contract, an allocated congestion hedge—whether it be an FTR under our current market or a CRR under the MRTU market design—should accompany the awarding of RA import capacity. This allocation can be as part of the MRTU CRR allocation scheme, so long as the arbitrary "grandfather" date for judging which pre-existing contracts qualify for CRR validation purposes is adjusted. Alternately, a "Tier Zero" allocation of CRRs associated solely with RA import capacity allocations could be integrated into the CRR program.

It was at the CAISO's urging that the CPUC adjusted its RA capacity counting conventions to require that import energy contracts be scheduled at a firm delivery point at an interconnection with the CAISO control area, or at a scheduling point as defined in the CAISO tariff (see CPUC D. 06-12-037, Ordering Paragraph 2.d.). Having prevailed in the CPUC forum on this issue, it should be CAISO's corresponding duty to insure that participants in the CAISO markets are not disadvantaged by the deference shown the CAISO by the CPUC.

# **Attachment A**

**COMMENTS OF  
SEMPRA ENERGY SOLUTIONS  
ON RESOURCE ADEQUACY IMPORT CAPACITY**

**FERC Docket No. ER06-615-004**

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SEMPRA ENERGY SOLUTIONS  
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**FERC Docket No. ER06-615-004**

Sempra Energy Solutions (“SES”) offers these comments to the California Independent System Operator Corporation (“CAISO”) in anticipation of CAISO’s upcoming tariff filing in the above-referenced docket of the Federal Energy Regulatory Commission (“FERC”).

SES supports the comments submitted by The Alliance for Retail Energy Markets (“AReM”) in this stakeholder comment period. But SES also wishes to raise an issue that has heretofore not been raised by any party. This issue involves a disconnect between the California Public Utilities Commission’s (“CPUC”) Resource Adequacy (“RA”) counting rules and CAISO’s proposed intertie allocation procedures.

On December 14, 2006, the CPUC issued Decision No. (“D.”) 06-12-037, which, among other things, specified that a firm energy import contract (commonly referred to as a “Firm LD” contract in the CPUC’s RA decisions and orders) must specify a firm delivery point at an interconnection with the CAISO control area, or at a scheduling point as defined in the CAISO tariff (see D. 06-12-037, Ordering Paragraph 2.d.) to qualify as an RA resource. The practical effect of this ruling is to expose Firm LD import contracts to congestion risk. As a consequence, SES believes that the RA value of Firm LD import contracts is impaired, contrary to the CPUC’s expression in D. 05-10-042 that hedging instruments would not be required to preserve the RA value of such contracts: “We also approve the request of Powerex that import contracts not be required to have FTRs....” [D. 05-10-042, p. 68].

To be sure, the instant proceeding, which addresses the RA import allocation process under the Interim Reliability Requirements Program (“IRRP”) tariff, does not deal with hedging congestion costs.<sup>1</sup> Nevertheless, for the import allocation process to

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<sup>1</sup> Congestion costs are phenomena of energy transactions, whereas Resource Adequacy is a capacity construct. The CPUC’s orders have permitted recognition of the

have meaning, it must give LSEs who are allocated import capacity for RA purposes a legitimate opportunity to realize the RA value of that import capacity. The Firm LD import contracts that “create” the RA capacity are not required to have congestion hedges, as indicated in the passage quoted above from D. 05-10-042. But scheduling a Firm LD import under the rule set forth in D. 06-12-037 exposes the transaction to congestion charges. While congestion charges might be (partially or substantially) hedged by the allocation of Congestion Revenue Rights (“CRRs”) under MRTU, the only hedging tool available now is an FTR, which must be purchased.

Thus, as SES sees it, there is no way for an LSE to realize the full RA value of an import allocation under the IRRP regime unless a congestion hedge is also allocated along with the RA import capacity allocation. This solution, like the IRRP itself, is interim. When the MRTU market rules come into effect, the CRR allocation process may, if properly designed and implemented, provide the needed congestion hedging tools.

*Submitted February 9, 2007*

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capacity value of energy contracts, for a transitional period for in-control-area Firm LD contracts, and as durable RA capacity for Firm LD import contracts.