Stakeholder Comments on 2011 CRR Enhancements

Submitted by	Company	Date Submitted
Ken Kohtz: 408-615-6676	*City of Santa Clara, dba Silicon Valley Power (SVP)*	*April 29, 2011*

Background & Comments Summary

Silicon Valley Power (SVP) appreciates the opportunity to provide comments in response to the ***2011 CRR Enhancements*** straw paper posted by the CAISO on April 15, 2011 and the subsequent stakeholder conference call held on April 22, 2011. The CAISO has proposed several changes under the scope of 2011 CRR enhancement. SVP **supports** the change in the CAISO straw proposal that removes, from the CAISO's earlier proposal, the concept that would have transferred the quantity of CRRs cleared from the allocation to the auction and reduced the number of sequential steps or tiers in the annual and monthly allocation release processes. SVP's comments are focused on two topics:

1. Combination of Tier 1 and Tier 2 Monthly Allocation; and
2. Revenue Adequacy Issues

SVP appreciates the CAISO's removal of the so-called "simplification" of merging the Allocation and Auction Processes in their straw proposal. That said, we believe that the CAISO's current proposal of merging the monthly allocation tiers raises some of the same issues as the earlier simplification proposal. We **oppose** combining the two monthly allocation tiers into one for the following reasons: (1) Load Serving Entities (LSEs) will not have a second chance, in the monthly allocation process, of being allocated CRRs; (2) the transfer of additional network capacity from the annual to the monthly process, either directly as proposed by the CAISO or indirectly via the breakeven OTC methodology, will allow for significantly greater capacity in the monthly process than has historically been allocated. If the two existing monthly tiers are combined, LSEs will not have the opportunity they currently have to obtain CRRs with the benefit of much better, and time-specific, information about actual conditions than is available in the annual process; (3) the additional time "gained" by eliminating the second tier is not as important as the opportunity that would be lost by eliminating that tier; if it is critical that additional time be gained, other means should be pursued. Furthermore, although market participants currently do not have adequate time to review and comment on the market model for monthly Tier 1, they do get ample opportunity to do so for the Tier 2 process.

As stated in our earlier comments dated March 18th, SVP agrees with the CAISO that revenue adequacy is an important issue that needs to be addressed in coordination with stakeholders. SVP **supports** the proposed methodology to determine the Operational Transfer Capacity "OTC" breakeven point for each transmission interface of the CAISO market for the annual process. We caution the CAISO **against** applying the annual OTC to determine the monthly allocation capacity.

Combination of Tier 1 and Tier 2 Monthly Allocation

SVP strongly opposes the merger of the Two Tiers of the Monthly Allocation process

The monthly allocation process is an important mechanism for LSEs to obtain more pinpointed CRRs with the benefit of much better information about actual conditions. LSEs have historically obtained significant amount of CRRs in the second tier of the monthly process in the periods with relatively low Global Derate Factors (GDFs). During the last couple of months of the 2011 process, with the GDF of 22.5%, only 2.5% of network capacity is made available to the entire monthly process. Therefore, the recent past is not necessarily indicative of the norm, and thus should not be used to determine the monthly Tier 2 CRR allocation potential. As discussed earlier, the CAISO proposed OTC breakdown methodology in the annual process will likely increase the monthly CRR capability. With a single monthly tier, LSEs will not have a second chance of being allocated CRRs. LSEs will be worse off if their ability to hedge their actual congestion via CRRs allocated in the monthly process is reduced. Our internal cost-benefit analysis indicates that the benefits of receiving additional CRRs in the monthly Tier 2 exceed the incremental transaction and administrative costs of participating in Tier 2 of the monthly allocation process. Therefore, SVP opposes combining two monthly tiers into a single tier.

Revenue Adequacy Issues

OTC Breakeven Methodology and Its Application

SVP supports the CAISO proposal of using the historical hourly OTC data for the last three-year period for the derivation of the breakeven points for individual transmission interfaces. We believe that the historical period of three years fits the Goldilocks formula: not too long, not too short, just right. Any period more than three years might not be relevant and could be misleading as the network topology changes in the long run. At the same time, to avoid idiosyncrasies, the CAISO may not want to rely on a historical period that is as short as a year.

The CAISO staff mentioned during the April 22nd stakeholder conference call that the OTC breakeven methodology will be applied not only to the inter-ties, but also to some major paths within the CAISO such as Path 15 and Path 26. SVP would appreciate if a list of all such paths and other facilities within the CAISO on which the CAISO intends to apply the OTC breakeven methodology could be supplied prior to, or concurrent with, the next draft proposal.

Distinguish Between Annual and Monthly OTC Treatment: Consider only the Forced Outages from Historical Data

As indicated in our summary above, SVP appreciates the importance of the revenue inadequacy issue the CAISO has faced since the implementation of MRTU. SVP understands that the main source for revenue deficiency is the volume of CRRs released across specific paths in the annual allocation process. SVP believes that the CAISO-proposed OTC breakeven methodology applied in the annual process would be superior to the current approach, which relies on the application of a GDF in the monthly CRR allocation and auction process. In particular, SVP supports the CAISO's proposal of applying the historical OTC breakeven point duration curve to the Total Transfer Capability (TTC) in the annual process. SVP is opposed, however, to incorporating the annual OTC values into the determination of the system capacity in the monthly process. The proposed CAISO approach does not avoid the "double counting" issue.[1] If monthly planned outages are less than historical outages, even if CAISO adjusts for the capacity withheld in the annual process, the CAISO will, incorrectly, make available too little monthly capacity.

SVP opposes the CAISO proposal of extending the OTC breakeven point method to determine monthly OTC value for two main reasons. First, in the monthly process, the CAISO has better information regarding planned outages for all facilities than the historical outage information that was used in the annual process up to over a year prior to a given monthly process. This more current and more accurate information should be used in adjusting monthly capacity values, rather than relying on historical outage data that includes both planned and unplanned outages. If historical data is to be used in conjunction with planned outage information, then **only estimated unplanned outages should be included** in the historical data set to avoid the double-counting of outages. Second, if a monthly OTC adjustment is applied, then the CAISO should not also apply GDFs in the monthly process. Instead, the CAISO may want to consider applying **localized de-rate factors** in the monthly process or extending the OTC methodology to specific internal facilities beyond the rated paths. We believe that limiting the monthly capacity by applying outdated annual OTC limits could result in unnecessarily restrictive OTC amounts at the inter-ties that could severely limit the ability of market participants to obtain CRRs from the inter-ties, even though adequate inter-tie capacity is expected to be available. In summary, we propose the following formula for monthly capacity:

Monthly Capacity = TTC – Monthly Planned Outages – Monthly Forced Outages Based on 3-Year Historical Data – Capacity Allocated in the Annual process.

Do not Reduce the Capacity Released in the Annual Process from 75% to 65% in the 2012 CRR Process

SVP believes that the CAISO's OTC breakeven implementation for the annual process should make significant network capacity available in the monthly process. Therefore, SVP recommends that the CAISO should retain the current structure of 75%-25% breakdown of the network capacity between the annual and monthly processes. If the 2012 monthly processes indicate insufficient monthly capacity, then the CAISO could consider transferring more capacity from the annual process to the monthly process in future years. Consistent with this view, SVP is also opposed to any greater splitting (i.e. – to a 50%-50% breakdown) of the available network capacity between the annual and monthly processes.

---

[1] The CAISO's example in the straw proposal appears to be misleading. If the TTC on a certain path is 1,000MW, then the TTC for the annual process should be 750MW. Now suppose the OTC breakeven point is incidentally also 750MW, then only 562.5MW (=750 times 75%) would be made available in the annual process; not 750MW as indicated in the CAISO example. SVP believes that the 25% percent of inter-tie capacity that was not part of annual process should be made available in the monthly process.

Do not apply a Global Derate Factor (GDF) for the annual process

Given the drawbacks of the GDF as a blunt instrument currently applied in the monthly process, SVP opposes any such application in the annual process. As described above, the CAISO should allow the annual OTC breakeven implementation to function at least for a year before making any additional structural changes to the CRR allocation process.

SVP appreciates the opportunity to comment on the 2011 CRR enhancements and acknowledges the significant effort of the CAISO staff in developing the straw proposal.