

Stakeholder Comments Template

Subject: CRR Enhancements – Draft Final Proposal on CRR Credit Issues, and Straw Proposal on Non-

Submitted by	Company	Date Submitted
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Credit Issues

This template has been created for submission of stakeholder comments on the following topics in regards to CRR Enhancements. Upon completion of this template please submit (in MS Word) to jprice@caiso.com. Submissions are requested by close of business on November 23, 2009.

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

Draft Final Proposal on CRR Credit Issues

1. CRR Credit Policy Enhancements

During the stakeholder conference call on November 16, 2009, the ISO described its Draft Final Proposal. So that the ISO can provide a tabulation of stakeholder positions on each of the following aspects of the ISO's proposal, please provide a brief statement of your position, such as "support", "oppose", "neutral", or similar statement:

- Calculation of maximum credit exposure of a CRR bid using the same MW value for the total credit requirement.

Support.

- Reduce pre-auction credit requirement for a negatively-valued CRR bid, by excluding negative bid (but not the credit margin) in the calculation. (As described by the ISO, this involves using the auction winning value to meet the holding credit requirement for the CRR.)

Support.

- Reduce the minimum credit requirement in the monthly CRR auction from \$500,000 to \$100,000.

Neutral.

Do you have any further comments regarding the proposed CRR credit policy enhancement?

In our earlier comments, SVP had asked the CAISO to develop a timeline for implementing an enhancement that allows netting between allocated CRRs and auctioned CRRs in the holding credit requirement calculation. In the draft final proposal, the CAISO has indicated that the implementation of this feature will require considerable changes to the current software. The CAISO further stated that it would be difficult to commit to a specific plan at this time; however the CAISO would consider this comment further in the future. SVP continues to urge the CAISO to implement this enhancement at the earliest possible opportunity, and request the CAISO to estimate the timeline for considering this upgrade.

Straw Proposal on Non-Credit Issues

During the stakeholder conference call on November 16, 2009, the ISO described its Straw Proposal concerning several non-credit CRR enhancements. Please refer to the ISO's Straw Proposal document at <http://www.caiso.com/2461/2461bbf935ca0.pdf>, and presentation at <http://www.caiso.com/2464/2464c5941a230.pdf>, to find details of the ISO's Straw Proposal.

2. Load Migration Process

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the process for adjusting CRR holdings to reflect load migration?

No comment on this item.

3. Modeling and Treatment of Trading Hubs

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the method for handling trading hubs in the CRR release?

In principal, SVP supports eliminating the disaggregation of Trading Hub CRRs to constituent Pnodes, however SVP cautions the CAISO about the computational complexities any proposed solution may add. In Step 2 of the process proposed by the CAISO, as a modification to PG&E's proposal, a rebundled Trading Hub CRR award would be computed as a percentage of the Trading Hub nomination, using the highest percentage that has been awarded to a constituent PNode relative to the disaggregated nomination in Step 1. SVP requests the CAISO to implement several checks and verifications to avoid potential use of incorrect Trading Hub weighting factors. The solution proposed by the CAISO - in particular, the re-bundling of CRRs along with the counterflow CRRs - appears to conceptually work, however it does not simplify the computational process within the CAISO software.

SVP opposes awarded Trading Hub CRRs from an annual CRR allocation being eligible for renewal in the Priority Nomination Process in the following year's annual CRR

allocation. The composition of the trading hub CRRs allocated in Tier 2 and Tier 3 of the annual allocation process is different from the trading hub CRRs in PNP (and Tier LT) in the following years due to different modeling conditions. In other words, these are different products, and therefore no priority should be offered to the Trading Hub CRRs being nominated in the following year's annual CRR PNP. If trading hub CRRs are allowed in PNP, then at a minimum, the corresponding counterflow CRRs must also be part of the renewal to at least partially preserve the similarity between the "Trading Hub" products within the seasonal allocation process. SVP has serious reservations about allowing Trading Hub nominations in the PNP even with this modification. In particular, SVP is concerned that if the Trading Hub CRRs are allowed to be nominated in Tier LT, over time the mix of counterflow CRRs from the initial nomination may no longer be sufficient to preserve the feasibility of the Trading Hub CRRs.

4. Weighted Least Squares Objective Function

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the weighted least squares objective function?

SVP is concerned that the WLS approach may favor the larger market participants at the expense of the smaller ones.

5. Multi-point CRRs

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the elimination of multi-point CRRs?

SVP believes that the multi-tier process offers adequate opportunity for parties to designate their priorities through their choice of which CRRs to nominate in each tier. Given that the CAISO has proposed to maintain the current two-tier structure of the monthly CRR allocation process, SVP supports eliminating multi-point CRRs from the CRR design conditional on not dropping the second tier from the monthly allocation process.

6. Tiers in Monthly Allocation

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the refinement of tiers in monthly CRR allocation?

SVP supports allowing sub-LAPs to be nominated as sinks in Tier 1 of the monthly allocation. Furthermore, SVP suggests that sub-LAPs should be allowed as sinks in Tier 2 of the annual process. This would allow greater flexibility to the market participants seemingly without adding any significant burden to the CRR allocation software, as currently it allows for sub-LAPs as sinks in Tier 3.

7. Sale of CRRs in CRR Auctions

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the sale of CRRs in the CRR auction?

SVP supports the CAISO's decision and methodology to incorporate the sell function in the auction software. SVP expects the CAISO to:

- Not compromise on a thorough review of the software in their efforts to expeditiously implement this feature.
- Consider whether to continue to allow market entities to “buy” an opposite and offsetting CRR in the auction and, if successful, continue to hold both the original CRR and its opposite CRR for some period of time after the sell function is implemented. This would allow market participants to continue to use their existing processes and templates during a transition period.

8. Modeling Approaches to Improve Revenue Adequacy

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the modeling to reinforce CRR revenue adequacy through transmission outage consideration?

SVP supports efforts to improve modeling of anticipated outages for the monthly CRR release, to better balance the objectives of revenue adequacy and optimum CRR release. SVP also supports efforts to incorporate the network model being used in the IFM model into the CRR FNM at the earliest possible opportunity, and encourages parallel development and testing of CRR FNM model changes to incorporate expected production IFM model changes.

9. Tracking of Long Term CRRs

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the tracking of long-term CRRs in the CRR system?

SVP supports the CAISO's proposed process to have all years of the LT CRR visible in the CRR system.

10. Signature Data in Priority Nomination Process

Do you have any comments, questions, concerns, or other ideas regarding the ISO's Straw Proposal concerning the process for “signature data” in PNP?

No comment on this item.

Other Comments?