Stakeholder Comments on CRR Enhancements for 2009-2010

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A. CRR Related Credit Issues

1. **CRR credit policy changes:** The ISO will review and refine current credit requirements for participation in CRR auctions to improve the ISO's credit coverage. The ISO will seek to implement these enhancements prior to the November 2009 annual auction.

   SVP supports the overall process to review and refine current credit requirements for participation in CRR auctions. In particular, SVP supports the proposed calculation of maximum credit exposure that uses the same MW value for the total credit requirement. This element of the proposed calculation reduces the pre-auction credit requirement for some bids without introducing additional financial risk to the ISO or other Market Participants.

   SVP also encourages the ISO to take this opportunity to allow netting between allocated CRRs and auctioned CRRs in the credit holding requirement calculation. This would further reduce credit requirements for holding CRRs for market participants with allocation and auction CRRs without unfairly burdening the ISO or other Market Participants, since the entity's allocation and auction positions would offset each other. As SVP has indicated in its past comments about allowing netting between allocated CRRs and auctioned CRRs, if credit risks associated with migrating load is of serious concern, the CAISO should estimate the amount of migrating load for each LSE and apply any new rules only to the proportion of potential migrating load. For some LSEs, the migrating load would be zero, while for others it might be 10%. Any restrictions on CRRs associated with migrating load should not apply to an LSE that does not have migrating load.

2. **Clarify rules for declaring a CRR holder in default and for curing the default:** Experience during 2009 revealed that in the event of a credit default, there is a need to clarify the processes for declaring the CRR holder in default and curing the default. The current ISO tariff has defined the events that will trigger declaration and cure of a default by a CRR holder in various sections. Process for re-selling CRRs of a defaulting CRR holder: Experience during 2009 revealed that in the event of a credit default, there is a need to better define the process for re-selling the CRRs of the defaulting CRR holder.

SVP also supports the ISO reselling to the market the CRRs that were held by a CRR Holder determined to be in default. SVP agrees with the ISO's objectives of reselling such CRRs are to mitigate the financial risk to the rest of the market as a result of a default, and to discourage defaults by CRR holders. SVP also supports the ISO's rationale to offer for resale all CRRs in the defaulting party's portfolio, and not just the positive-value ones. However, SVP opposes ISO's proposal to set a minimum sale price based on a formula that calculates the minimum price for each CRR as a certain percentage of auction prices, since circumstances may have changed and the value may have changed since the relevant auction. Further:

- If the liquidation process works efficiently, the appropriate value of the CRR will be determined that process.
- a 10% premium or any other is purely arbitrary.
- If the ISO were to sell (pay for) the so called "negatively valued" CRRs at any premium to its expected value, the market participants exposed to the impacts of the default would appear to be worse off than if the ISO were to hold that CRR rather than resell it.

SVP is concerned that offering discounted prices at arbitrary "risk premiums" would provide incorrect market signals to the buyers of these CRRs. We therefore encourage the ISO to focus its efforts on having a liquidation process that is as competitive as possible with sufficient information available to market participants to enable them to fairly assess the value of CRRs. Only through a competitive liquidation process can the ISO and market participants properly value the CRRs. If the ISO does not believe that it can achieve the competitive liquidation process, all market participants might be better off waiting for the FNM results to determine the realized value of the CRRs.

3. **Re-evaluation of holding credit requirements for extraordinary circumstances:** Circumstances such as extended outages can result in changes in holding credit requirements. A business process has been defined, and will be reviewed.

   No comment on this item.

B. Non-Credit Policy Issues

1. **Revise load migration process:** The current process for transferring CRRs due to load migration between LSEs requires the ISO to handle data on retail end-use customers. This data is not otherwise the type of data for which the ISO is responsible for handling and processing. Alternatives will be considered that do not require the ISO to receive such data.

   No comment on this item.

2. **Revise modeling and treatment of trading hubs in CRR allocation:** The current CRR allocation process disaggregates a nominated trading hub CRR into separate CRRs for each constituent PNode of the trading hub, resulting in holdings of many small CRRs. A

revised approach for allocating and tracking CRRs having a trading hub source or sink could streamline this process.

SVP aggress with the ISO's statement that the current approach leads to a proliferation of large quantities of small MW value CRRs, which is both inefficient and burdensome for CRR holders. The ISO would need to implement different mechanisms, some specifically to attack the "inefficiency" of the current approach and others the "burdensome" nature of the current approach. To mitigate the inefficiency, depending on the details of the process, SVP could support the ISO's first proposal to limit the MW amounts for CRR nominations using Trading Hubs in Tier 1 of the annual CRR process so that the probability of a constraint becoming binding in Tier 1 is greatly decreased. This proposal is preferred to the latter proposal that directly reserves transmission capacity for allocation in Tier 2, during the execution of Tier 1, since it ensures that further capacity is available for awards using Trading Hubs in Tier 2, or Tier 3, of the CRR allocation process at the expense of those seeking Trading Hub allocations in Tier 1. To mitigate the "burdensome" nature of the current approach, SVP could potentially support eliminating the disaggregation of Trading Hub CRRs to constituent Pnodes, however SVP requests that the ISO describe this process in detail in its straw proposal. In particular, SVP would like to see the ISO address the following elements of the treatment of trading hubs in CRR allocation.

- Identify the counterflow CRRs and see if they could be included as part of the mix allocated to the CRR holders in order to achieve maximum possible trading hub allocations; and
- Identify methods that overcome the issues, such as incorrect Trading Hub weighting factors.

3. **Eliminate multi-point CRRs from CRR design:** Market participants strongly desire the ability to sell CRRs in the auction, but multi-point CRRs make it difficult to implement the sale of CRRs. Eliminating multi-point CRRs facilitates the sell function. Having the multi-point function in the CRR system complicates the implementation of almost every new feature that might be desired while offering very little offsetting benefit.

   The original objective of the multi-point CRRs was to enable participants in the CRR allocation process to assign different priorities to the CRRs they nominate so that the SFT would reduce lower priority nominations first when reductions are needed to achieve simultaneous feasibility. SVP agrees 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. Although this is true for seasonal/annual allocation process, the same cannot be said about the monthly process, especially now that the ISO is proposing a move to a single tier. Therefore, SVP cautions the ISO against eliminating multi-point CRRs from the CRR design, especially if the ISO decides to drop the second tier from the monthly allocation process. (See SVP comment C5)

4. **Weighted least squares objective function:** The current CRR allocation software maximizes the release of CRRs by utilizing the most effective nominated CRR, from

among the CRR requests, to mitigate congestion in the simultaneous feasibility test. As a result the software does not equitably distribute the reduction from CRR allocation requests among participants. The use of a weighted least squares CRR optimization algorithm would balance equity with maximum CRR release.

SVP appreciates the ISO's efforts to alter the current CRR allocation objective function. SVP prefers the weighted least squares (WLS) approach, which if implemented appropriately, should distribute the curtailment across all CRR nominations that are effective in relieving the congestion. SVP agrees that WLS approach is superior to the current objective function of maximizing the CRR MW, as far as balancing equity is concerned. SVP's review of the ISO Enhancement Issue Paper indicates that the WLS approach allows for a sharing of reduction in nominations to mitigate an overload on an enforced constraint as compared to the Max CRR method in which the most effective control variable is reduced first.

5. **Move to single tier in monthly allocation:** The current monthly CRR allocation uses two tiers even though the incremental amount of CRRs released after the annual CRR process is limited. A single allocation tier would make the monthly allocation process more streamlined.

   SVP would support a move to a single allocation tier in the monthly allocation process to effectively utilize the amount of time and resources for market entities provided that the following two conditions must be satisfied.
   - The multi-point CRRs are not eliminated from CRR design (See SVP comment C3); and
   - SubLAPs are allowed as sinks in the only resulting tier in the monthly allocation process.

C. Non-Credit Business Process Issues

1. **Sale of CRRs in the CRR auctions:** CRRs cannot be directly sold in the auction. If market participants intend to dispose of CRRs through the auction, participants may purchase CRRs in the auction that are in the opposite direction of the originally released CRR. Alternatively, a market participant may transact a trade through the Secondary Registration System. Implementation of the sell function in the auction software is in process, and will be reviewed with market participants.

   SVP appreciates the ISO's decision to incorporate the sell function in the auction software. SVP expects the ISO to:
   - Not compromise on a thorough review of the software in their efforts to expeditiously implement this feature.
   - 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 should allow market participants to continue to use their existing processes and templates during a transition period.

2. **Modeling approaches to reinforce CRR revenue adequacy:** In the initial months of operation of the new ISO markets, the ISO has lacked data regarding the impact of transmission outages on CRR revenue adequacy to accurately determine the optimal amount of monthly CRRs for release. As a result there were significant CRR revenue shortfalls in the CRR balancing account for the first three months. Based on the post go-live experience, the ISO will consider ways to improve its modeling of anticipated outages for the monthly CRR release, to better balance the objectives of revenue adequacy and optimum CRR release.

   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. Potential changes to the process must be carefully evaluated, since adjustments that lead to too few CRRs being released have negative impacts on Market Participants, just as releasing too many CRRs has other negative impacts.

3. **Tracking of Long Term CRRs in CRR system:** The ISO's current process involves manual work-arounds, which will be automated. These processes are internal to the ISO and do not impact either the CRR holdings or the business processes of market participants, but the ISO will explain the issues and the proposed process improvements through this stakeholder process.

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