CRR Issue Comments from the Western Power Trading Forum

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Issue	Draft Position
What time period should the CAISO use for allocation Source Verification Period for Q1 2009 CRRs	Using Q1 of 2008 would provide the most accurate representation of an LSE's obligations and sources.
Should the CAISO redo the Q2 and Q3 source validations for the 2009 auction even though "year 2" CRRs are not intended to require source validation?	WPTF members have varying views on this topic based on the extent to which they expect their loads and resources to change. However redoing source and sink validation is the only way to assure LSEs are awarded CRRs consistent with their portfolios. WPTF is also sensitive to changing the rules after parties have made assumptions about the future process. WPTF would support more discussion on this topic.
Should the CAISO allow the PNP for 2009 Q4 CRRs (as opposed to requiring source validation again) assuming that MRTU goes live in the fall?	Assuming MRTU goes live in the fall, applying the PNP for 2009 Q4 seems reasonable.
Treatment of long-term CRRs	WPTF recognizes that a delayed MRTU start means that for the most part the "10-year CRRs" are only 9-year CRRs. WPTF finds this to not be problematic. Regarding the staggered treatment of LT CRRs that would occur with a fall 2009 start, WTPF encourages the CAISO to consider whether modifying rules to have the staggering transition at the start of the calendar year might be worthwhile; removing confusion that would otherwise perpetuate in future years about the different conditions applied from Q1-Q3 vs. Q4. Should this be considered, WPTF would advocate for a more conservative release of Q4 CRRs rather than a less conservative release of the Q1-Q3 CRRs.
Increased granularity of CRRs	WPTF supports a movement – at a minimum to a granularity level of 0.01 MW.
Proposed modification to the 30-Day rule	While WPTF does not strongly object to the adjustment of the exemption from a "Day" outage to a 24-hour outage window, WTPF does object to the criteria suggested by the CAISO. Impacts to individual market participant's congestion or CRR payments are also very relevant to the assessment of the potential severity of the outage. These impacts can affect solvency of individual market participants as well as equity between those of

	knowledge of the outage vs. those who have not been given 30 day's notice.
Proposed exemptions to 30-day requirement	WPTF supports taking a conservative approach to the 30-day assessments.
Approach to potential changes to 30-day rule	WPTF does not support the softening of criteria simply in the event that revenues exist in the balancing account from prior periods. Rather 30-day rule assessment of impacts on revenue adequacy should be based on the settlement periods in question. In other words the CAISO should not "dip into" excess CRR revenues from prior periods in order to justify an exemption to the 30-day notice requirement that would otherwise make the CRR process revenue inadequate during the time period of the outage. Doing so jeopardizes revenue adequacy, given the possibility of other unexpected outage conditions.
CRR eligibility for LSEs without verifiable load data	WPTF does not have a position on this issue at this time.
Credit policy issues – General	WPTF finds the credit issues complex and their range of proposed outcomes subject to creating significant unintended consequences. As a result, while we have submitted some preliminary comments, we encourage the CAISO to take additional time to thoroughly consider the optimal credit designs.
Credit for allocated CRRs given transfers	WPTF does not support solutions that limit trading of allocated CRRs, as doing so would both limit liquidity and prevent an LSE from reconfiguring their CRR portfolio as the LSE's hedge needs change. However, it does seem necessary for an LSE to hold collateral for the potential counterflow created by load migration, although counterflow credit requirements – including credit margins – should be entirely offset so long as the LSE holds the prevailing CRR. WPTF is somewhat concerned about the cost of doing business associated with options that would apply additional credit requirements on LSEs. As a result, WTPF encourages continued discussions on striking the right balance between costs of credit and risks of default.
Using expected value to more accurately measure credit costs for holding CRRs	WPTF encourages the CAISO to use the most accurate measures to determine the credit requirements. As such the use of expected value is relevant. However, WTPF is unclear why the CAISO would chose the highest of credit requirements based on auction value vs. credit requirements based on expected values once the auction has cleared. Using expected value would ensure that credit is not undervalued based on auction price, but continuing to include auction price in the credit formula does not insure that the CAISO is not overcollecting credit given the expected value. WTPF encourages the CAISO to further articulate why the formula would continue to consider auction price rather than simply expected value.
Pre-auction credit requirement	WPTF generally supports a pre-auction credit requirement that is consistent with the Post-auction CRR holding credit requirement. WPTF asks however, the CAISO to further explain the credit requirements for a market participant's bidding on a CRR that is a counter-flow to a CRR already held.

	Whereas the CAISO seems to net credit obligations for CRRs held, it is unclear whether the CAISO nets pre-auction credit requirements with CRRs already held. For example, if a market participants holds 100 MWs of rights from A to B as a result of an annual auction award, and in the monthly auction process the market participant wishes to bid on up to 50 MWs of rights from B to A – effectively in order to sell their A to B rights – there would seem to be no risk basis for asking the market participant to put up additional pre-bid credit. This especially seems the case given that once an SC owns such rights the credit obligations would be netted. WPTF seeks clarification as to whether credit would be required for a market participant to bid on such rights and to the extent this is the case, asks for reconsideration of this requirement. Further, if the bid to close out a position could require the bidder to pay (as opposed to being paid) then the maximum possible payment (as opposed to the credit margin) should be collateralized. Separate from these comments and requests, WPTF encourages the CAISO to consider accelerating the functionality associated with selling CRRs through the auction, as this would simplify all of these credit issues. Finally, to the extent that credit costs are going to be a barrier to liquid CRR markets and to market participation, WPTF encourages the CAISO to reexamine the level of the credit margin to ensure it strikes the right risk/cost balance.
Refiling the full-term coverage	WPTF does not support simply filing the CAISO's original, full-term CRR credit proposal again. FERC has already ruled that holding collateral for the full-term value of the CRR is too costly and has encouraged the CAISO to explore alternatives (if this is essentially what FERC said). Instead, we encourage the CAISO to investigate alternatives that are less onerous, less costly for market participants, and that might provide better protection for market participants as a group.
Parent/Affiliate credit	WPTF is sensitive to the variety of concerns raised during the CRR stakeholder meetings about defaults vs. credit calls. WPTF encourages the CAISO to provide more information about what would happen in a variety of cases of default in conjunction with outcomes on market revenues. While it seems reasonable to seek recovery from a guarantor, further details are warranted before WTPF can fully understand the implications of the proposal.
Increased credit for circumstances	WPTF believes this idea has merit but we are concerned about the lack of specificity offered in the proposal regarding what conditions would cause the CAISO to adjust credit requirements. Higher credit requirements are a strong barrier to participation and if the credit requirements are not commercially reasonable, the proposed policy could detrimentally impact liquidity in the CRR markets. Further, as discussed in the stakeholder

	meeting, it is unclear what would happen if the CAISO increased credit and a party was unable to provide the credit. Would this trigger a default even if the party continues to pay CRR charges? Lastly, it would seem the rule should be symmetrical in order to not unreasonably increase the cost of credit to the entire CRR market. That is, if the credit requirement for a CRR increases as a result of a system change, it should similarly be adjusted downward for that CRR's counterflow rights. Thus, changes in expected values of CRRs should reasonably cause comparable decreases for some of the CRRs. Independent of the ultimate outcome, the CAISO's methodology to calculate credit requirements under such circumstances should be specified in the tariff so that participant can always extrapolate their potential credit exposures.
Other	1. WPTF requests that the CAISO consider calculating the credit impact its proposed policies have on existing CRR holders. Changing the credit rules after-the-fact as the CAISO is proposing could have a significant impact on CRR holders. The severity of this impact should be considered before finalizing the policies. 2. WPTF requests that the CAISO develop a credit calculator so that participants can estimate their credit obligation ahead of bidding.