

Stakeholder Process: Proposed Changes to Enhance Rules for Releasing CRRs

Summary of Submitted Comments

This matrix summarizes written comments submitted by stakeholders on the following dates:

- March 9, 2007
- April 6 and April 10, 2007

In addition to this summary, the full content of stakeholder comments are posted at:

<http://www.caiso.com/1b8c/1b8cdf25138a0.html>

Stakeholder discussions occurred at:

- February 27, 2007 meeting
- April 3, 2007 meeting
- Conference calls on March 26, March 29 and April 12

Stakeholder	Comment	ISO Response
Alliance for Retail Energy Markets (AREM)	<p>Use of Trading Hubs as sources for allocated CRRs: any solution must allow the ISO to remove its prohibition on obtaining LT-CRRs at Trading Hubs. Nomination limits should remain effective, if necessary, for no more than 12 months.</p> <p>CRR source verification rules: opposes the “expansion” of verified sources beyond those contracts signed in 2006 for energy that is delivered in the CRR period of 2008. Further expansion, if necessary, should be limited to imports.</p> <p>Renewal of LT-CRRs: LSEs that gain migrating load also should have the option to request those CRRs in the priority nomination tier.</p>	<p>Use of Trading Hubs as sources for allocated CRRs: The ISO considered and reviewed with stakeholders a number of options to mitigate the potential for CRR nominations not clearing the simultaneous feasibility test due to the interaction between individual generator and Trading Hub source nominations. The ISO’s proposed approach to disaggregate Trading Hub CRRs into individual nodal CRRs would permit LSEs to nominate LT-CRRs that are sourced at Trading Hubs. Under this proposal there would be no nomination limits that would apply specifically to CRRs at Trading Hubs.</p> <p>CRR source verification rules: On this issue the ISO also explored and reviewed with stakeholders several options to expand or substitute</p>

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		<p>the verifiable sources to allow CRR nominations with sources that have 2006 contracts for energy delivered at a later time. The stakeholder discussion of these options highlighted a number of potential problems with this approach, including the potential for double-counting of sources, pro rationing and use of sources that do not currently exist. Thus, the ISO proposal is to remain consistent with the approach filed in the February 2006 MRTU Tariff, which is to base source verification on delivered energy during a historical reference year. The ISO has previously announced its policy to update that reference year to 2006 and will make this tariff change in its May 2 Filing.</p> <p>Renewal of LT-CRRs: The ISO's proposal to allow holders of expiring LT-CRRs and ETCs/CVRs to nominate those rights in the first Tier LT the CAISO performs in which those expiring rights are fully eliminated does not preclude similar treatment for CRRs that shift among LSEs due to load migration. This issue is expected to be reviewed as part of the stakeholder process on CRRs transferring due to load migration.</p>
<p>California Public Utilities Commission (CPUC)</p>	<p>Methodology for determining CRRs for Merchant Transmission: MT sponsors should be allowed to obtain only obligation CRRs.</p>	<p>Methodology for determining CRRs for Merchant Transmission: The ISO has previously proposed (in testimony to FERC) that MT sponsors could choose CRR options. The ISO suggests that it would not be reasonable to require Merchant CRRs to make counterflow available to support other CRR awards to other market participants because the proposed process will require the Merchant CRRs to be simultaneously feasible on a stand-alone basis, i.e., they will not be permitted to sit on top of the counterflow from other CRRs. By the same token, it appears to the ISO that it would be inconsistent to require Merchant CRRs to be obligations so as to provide counterflow to support the feasibility of other CRRs.</p>
<p>City of Riverside</p>	<p>Use of Trading Hubs as sources for allocated CRRs: could support Option 1 (limits on Trading Hub nominations) but otherwise recommend employing the rules followed in the Dry Run.</p> <p>Reserving grid capacity for auctions: retain the rules used in the Dry Run.</p> <p>CRR source verification rules: strongly recommend retaining at least a 30-day contract to qualify as a verifiable source. Also supports the verification period of 2006.</p>	<p>Use of Trading Hubs as sources for allocated CRRs: The ISO considered and reviewed with stakeholders a number of options to mitigate the potential for CRR nominations not clearing the simultaneous feasibility test due to the interaction between individual generator and Trading Hub source nominations. The ISO's proposed approach to disaggregate Trading Hub CRRs into individual nodal CRRs would permit LSEs to nominate LT-CRRs that are sourced at Trading Hubs.</p>

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	<p>Set-Aside of import capacity: reluctant to support any options to increase set-asides.</p>	<p>Reserving grid capacity for auctions: The ISO's proposal would retain the rules used in the Dry Run.</p> <p>CRR source verification rules: The ISO agrees and proposes to retain the current tariff provision for a minimum 30-day contract to qualify as a verifiable source. The ISO will be filing at FERC, consistent with the comments of the City of Riverside, to update the verification period to 2006.</p> <p>Set-Aside of import capacity: The ISO agrees and proposes to retain the current tariff provisions for the set-aside of import capacity.</p>
<p>FPL Energy</p>	<p>Methodology for determining CRRs for Merchant Transmission: latent transmission capacity should be made available to MT sponsors. A strategic investment can create incremental capacity at the location of the physical upgrades, on radial paths surrounding that investment and, by eliminating a contingency or constraint, can increase the transfer capability of parallel paths. In PJM, MT upgrades qualify for not only congestion hedge value, but if they increase import capability to a constrained load pocket, can qualify for capacity value in its RPM/CAP markets.</p> <p>FPLE agrees with the conceptual approach of the CAISO's proposed methodology, but would like to see a specific example of the methodology in practice before unconditional endorsement.</p> <p>FPL believes that MT CRRs are determined at the point of operation of the facility and fixed for the life of the facility. The ISO must clarify this point.</p> <p>FPL does not believe its historic MT investment should be exposed to any "counterflow CRRs" since CRRs will not exist when FPL's allocation is determined.</p> <p>FPL would support the creation of a minimum investment threshold to qualify for the allocation of MT CRRs (for instance \$0.5 million) to eliminate potential abuses from trivial network changes that awaken capacity.</p>	<p>Methodology for determining CRRs for Merchant Transmission: The ISO's proposal would permit the MT sponsor to be awarded CRRs on capacity that currently exists, so long as the CRRs were not feasible prior to the transmission upgrade, and are incremental to pre-existing claims to transmission capacity (ETC, CVR and other outstanding CRRs.)</p> <p>Except for counterflow CRRs which the MT sponsor may hold for a period of time, MT CRRs would remain in existence for the life of the facility or thirty years, whichever is less.</p> <p>The ISO recognizes the need to provide a transition mechanism to CRRs for the only existing MT project that had elected for FTR allocation (the "Blythe upgrade" by FPL). The CAISO intends to apply this proposed approach for determining Merchant CRRs for that project, although this special case should not be considered precedent-</p>

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		<p>setting for future projects as this project is the only project of its kind (i.e., an existing project that is transitioning from FTRs to CRRs). Any Merchant CRRs allocated to FPL for the Blythe project using this methodology would become effective when MRTU goes live in January 2008, at which time FTRs will no longer be in effect.</p>
<p>Metropolitan Water District (MWD)</p>	<p>Methodology for determining CRRs for Merchant Transmission: The term for Merchant CRRs should be limited as necessary to recognize applicable legal limitations such as potential termination of related interconnection agreements. Also, the ISO should recognize the MT upgrade's potential effect on existing contract or transmission ownership rights in its power flow modeling, and Merchant CRR amounts should be subject to public review and comment.</p>	<p>Methodology for determining CRRs for Merchant Transmission: The ISO appreciates these comments.</p>
<p>PG&E</p>	<p>Renewal of LT-CRRs: supports the CAISO's proposed "fix" related to the renewal of expiring LT-CRRs and ETC/CVR with one additional modification: instead of permitting these expiring rights to be renewed with a 9-year term, the rules should permit a 10-year term.</p> <p>Reserving intertie and grid capacity for auctions: supports reserving a modest percentage of all transmission capacity for CRR auctions, including a LT-CRR auction, while recognizing that these changes may not realistically be implemented until the beginning of the 2009 CRR release process.</p> <p>Use of Trading Hubs as sources for allocated CRRs: the "basket of individual CRRs" is the best available solution at this time. Source nomination limits in Tier 1 would not moderate the superior priority that Hubs have, while reducing the benefit of a tiered approach to CRR allocation.</p> <p>Allowable set of verifiable CRR sources: supports expanded approach that allows 2006 contracts for future years' deliveries. To avoid multiple counting for some sources, a simple pro rata approach is reasonable but could be enhanced by giving preference to LSEs with planned deliveries.</p> <p>CRR Credit Policy: does not support a one year only credit requirement for LT-CRRs, and encourages further consideration of mechanisms to avoid gaming.</p> <p>Methodology for determining CRRs for Merchant Transmission: clarify that CRRs for MT upgrades is applicable for new transmission projects that have not been energized.</p>	<p>Renewal of LT-CRRs: The ISO has discussed this comment further with PG&E staff and points out that the SFT in Tier LT only covers a ten-year year period.</p> <p>Reserving intertie and grid capacity for auctions: The ISO recognizes that further stakeholder discussion on changes that might occur in years beyond CRR Year 1 would be valuable.</p> <p>Use of Trading Hubs as sources for allocated CRRs: The ISO agrees and the ISO's proposal is to disaggregate Trading Hub CRRs into a bundle of individual CRRs.</p> <p>Allowable set of verifiable CRR sources: On this issue the ISO also explored and reviewed with stakeholders several options to expand or substitute the verifiable sources to allow CRR nominations with sources that have 2006 contracts for energy delivered at a later time. The stakeholder discussion of these options highlighted a number of potential problems with this approach, including the potential for double-counting of sources, pro rationing and use of sources that do not currently exist. Thus, the ISO proposal is to remain consistent with the approach filed in the February 2006 MRTU Tariff, which is to base source verification on delivered energy during a historical reference</p>

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	<p>Generally supportive of the proposed methodology, although any negative consequences including a degradation of CRRs must be factored into the initial allocation of Merchant CRRs. At a minimum, the MT sponsor should be responsible for counter-flow obligations for a period of time necessary to correct any detrimental impacts of the project through the transmission planning process.</p> <p>System Modeling: request that the ISO provide additional details how the CRR SFT will utilize and accurately reflect the nomograms and operating procedures that the ISO operators will use in the MRTU day market and day ahead RUC.</p> <p>Use of Common Forecast for Monthly RA and Monthly CRRs: supports protocols that might align and simplify LSE filing of load forecasts.</p> <p>Modeling of Transmission Outages: the ISO should have a stakeholder process to develop and finalize these procedures for the treatment of unplanned outages in the monthly CRR modeling. Additional information and transparency is needed.</p> <p>Minimum contract length for verification: support the Dry Run practice that allowed verification of contracts as short as one day, although alternatives such as one week or one month could be considered if the ISO believes this process creates an excessive burden.</p>	<p>year. The ISO has previously announced its policy to update that reference year to 2006.</p> <p>CRR Credit Policy: The issue will be reviewed further with stakeholders in the coming weeks.</p> <p>Methodology for determining CRRs for Merchant Transmission: The ISO recognizes the need to provide a transition mechanism to CRRs for the only existing MT project that had elected for FTR allocation (the “Blythe upgrade” by FPL). The CAISO intends to apply this proposed approach for determining Merchant CRRs to that project, although this special case should not be considered precedent-setting for future projects as this project is the only project of its kind (i.e., an existing project that is transitioning from FTRs to CRRs). Any Merchant CRRs allocated to FPL for the Blythe project using this methodology would become effective when MRTU goes live in January 2008, at which time FTRs will no longer be in effect. The ISO agrees that degradation of CRRs must be rectified through the assignment of counterflow CRRs, and will consider PG&E’s suggestion regarding the time period needed to correct any detrimental impacts of the project through the transmission planning process.</p> <p>System Modeling: This CRR Dry Run Report to FERC includes extensive discussion of CRR modeling. The ISO would be willing to discuss further questions with market participants.</p> <p>Use of Common Forecast for Monthly RA and Monthly CRRs and Modeling of Transmission Outages: These issues will be reviewed with stakeholders in the coming weeks.</p> <p>Minimum contract length for verification: The ISO considered and discussed this issue with stakeholders, and the ISO believes it is best to retain the currently filed MRTU tariff provision for a 30 day minimum contract for source verification because of the potential administrative burden for reviewing one-day contracts, among other reasons.</p>

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Powerex	<p>Reserving intertie and grid capacity for auctions: The change in reference year should not reduce the Dry Run set-aside quantities for the auction. The deliverability of any grid capacity set-aside should be ensured by either modeling import CRRs that are reserved for the auction as fixed CRRs in the allocation process, or by derating specific transmission elements needed to accommodate the set-aside flow.</p> <p>Minimum contract length for verification: oppose allowing the use of contracts of less than one month. If one day contracts are permitted for the verification of sources, these short-term contracts should not be available for conversion to LT-CRRs.</p>	<p>Reserving intertie and grid capacity for auctions: The ISO reviewed and discussed with stakeholder several options related to reserving capacity at the interties for the auction.</p> <p>Minimum contract length for verification: The ISO agrees. The ISO considered and discussed this issue with stakeholders, and the ISO believes it is best to retain the currently filed MRTU tariff provision for a 30 day minimum contract for source verification because of the potential administrative burden for reviewing one-day contracts, among other reasons.</p>
Southern California Edison	<p>Use of Trading Hubs as sources for allocated CRRs: The only option that addresses the priority given to hub requests and the limitation of awards once a binding constraint is reached is the approach that turns a Trading Hub into a collection of points whereby each point is evaluated independently.</p> <p>Set-Aside of import capacity: allowing a minimum amount of set-aside based on the Dry Run demonstration would be acceptable on the condition that source data is verified for the 2004-2005 time period, and that further details are provided how daily contracts might be verified, if such short-term contracts are permitted for verification purposes. Oppose utilizing the result of the priority nomination process in the second year and beyond to establish the intertie set-aside. Strongly oppose using a fixed percentage of intertie capacity to be set-aside prior to allocation.</p> <p>Reserving grid capacity for auctions: Strongly objects to setting aside 20% of grid capacity for the annual and monthly auctions. Moving away from an allocation would be inappropriate after market participants have spent years developing a comprehensive CRR proposal, and could make other elements of the design no longer appropriate.</p> <p>Allowable set of verifiable CRR sources: Oppose contracts as short as one day. Completely unacceptable that an 8-hour contract could be used to obtain a 10-year right that can be renewed into perpetuity. The burden of verifying a daily contract would be onerous. If one day contracts are permitted to verify sources, then such sources should not be allowed as conversion to LT-CRRs.</p>	<p>Use of Trading Hubs as sources for allocated CRRs: The ISO agrees and the ISO's proposal is to disaggregate Trading Hub CRRs into a bundle of individual CRRs.</p> <p>Set-Aside of import capacity: The ISO reviewed and discussed with stakeholder several options related to reserving capacity at the interties for the auction.</p> <p>Allowable set of verifiable CRR sources: The ISO proposal would retain the currently filed MRTU tariff provision for a 30 day minimum contract for source verification. On this issue the ISO also explored and reviewed with stakeholders several options to expand or substitute the verifiable sources to allow CRR nominations with sources that have 2006 contracts for energy delivered at a later time. The stakeholder</p>

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	<p>Opposed to proposal that permits contracts that have yet to be delivered to be deemed as verified sources. Allowing CRRs from “phantom sources” to be allocated would introduce burdensome complexity that will likely result in an inequitable allocation of CRRs. A demonstrated showing of resources with deliveries of energy in 2006 is sufficient and reasonable.</p> <p>Renewal of Expiring LT-CRRs and ETC/CVRs: supports the proposal to allow priority nomination of LT-CRRs and ETC/CVRs one year prior to their expiration.</p> <p>CRR Credit Policy: objects to not requiring appropriate credit requirements for negatively valued CRRs until after the close of the auction process. ISO should apply appropriate credit requirements to all auction participants prior to the auction process. Supports the ISO’s proposal to include compliance measurement and consequences for any failure to meet credit requirements. Tariff should provide appropriate incentives to CRR holders to meet credit requirements.</p> <p>Methodology for determining CRRs for Merchant Transmission: latent transmission capacity paid by load should not be made available to MT sponsors. It would be inappropriate for a Merchant to make a low cost investment that then entitles them to thousands of CRRs on transmission that is already in the ground.</p> <p>In the special case of an upgrade to a Branch Group that is radially connected to only one node within the Full Network Model, Merchant CRRs should be restricted to source and sink only from the Branch Group and the first other connected node within the Full Network Model. In the unusual case where a MT upgrade makes an existing set of CRRs infeasible, no Merchant CRRs should be issued. Allowing the MT sponsor to accept counterflows would unlock value that was already there that is unrelated to the MT upgrade.</p> <p>Merchant CRRs should be limited to nodes where a LMP is calculated; allowing Trading Hubs as sources or sinks for Merchant CRRs would allow the MT sponsor to realize value from elsewhere in the zone that is not related to its MT upgrade.</p> <p>MT sponsors should not be allowed to request option CRRs which, to the extent that the CAISO process does not protect the latent capacity of the existing grid, can magnify the negative consequences to other grid users.</p> <p>Reasonable limits to the amount of requests that MT sponsors can make.</p>	<p>discussion of these options highlighted a number of potential problems with this approach, including the potential for double-counting of sources, pro rationing and use of sources that do not currently exist. Thus, the ISO proposal is to remain consistent with the approach filed in the February 2006 MRTU Tariff, which is to base source verification on delivered energy during a historical reference year. The ISO has previously announced its policy to update that reference year to 2006.</p> <p>Renewal of Expiring LT-CRRs and ETC/CVRs: The ISO agrees.</p> <p>CRR Credit Policy: The issue will be reviewed further with stakeholders in the coming weeks.</p> <p>Methodology for determining CRRs for Merchant Transmission: The ISO’s proposal would permit the MT sponsor to be awarded CRRs on capacity that currently exists, so long as the CRRs were not feasible prior to the transmission upgrade, and are incremental to pre-existing claims to transmission capacity (ETC, CVR and other outstanding CRRs.)</p> <p>There may not be any reasonable way to reserve all latent transmission capacity in the allocation of Merchant CRRs. If no parallel flows from the Merchant CRRs were permitted on any pre-existing transmission facilities, no Merchant CRRs could be awarded. Furthermore, precedent in other regions does not support the view that the merchant should only be able to obtain CRRs for the stand-alone transmission capacity added by their project.</p> <p>The ISO will consider further SCE’s suggestion about limiting the sources and sinks of the Merchant CRR nominations that a developer would be permitted to make for a radial upgrade. The ISO also will consider further the suggestion that Merchant CRRs not be allowed to utilize Trading Hubs as sources or sinks.</p>

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		<p>The ISO has previously proposed (in testimony to FERC) that MT sponsors could choose CRR options. The ISO suggests that it would not be reasonable to require Merchant CRRs to make counterflow available to support other CRR awards to other market participants because the proposed process will require the Merchant CRRs to be simultaneously feasible on a stand-alone basis, i.e., they will not be permitted to sit on top of the counterflow from other CRRs. By the same token, it appears to the ISO that it would be inconsistent to require Merchant CRRs to be obligations so as to provide counterflow to support the feasibility of other CRRs.</p>
TransAlta	<p>Reserving grid capacity for auctions: Supports setting aside a significant percentage (such as 75%) of grid capacity to all market participants.</p>	
WPTF	<p>Use of Trading Hubs as sources for allocated CRRs: Opposes limits on CRR nominations sourced from Trading Hubs because it would have a significant adverse impact on market participants' ability to hedge and would thereby adversely affect market liquidity at critical trading points. Opposes the disaggregation of Trading Hubs because such rights could not be properly valued in the auction process, may not be fungible on the secondary market, and may disadvantage smaller ESPs if the CAISO's system could not manage fractions of CRRs. A simple proxy hub CRR would be the most desirable option that would be a consistently defined hedge product for the allocation and auction processes as well as bilateral trading.</p> <p>Allowable set of verifiable CRR sources: The ISO should not broaden its source allocation rules.</p> <p>Set-Aside of import capacity: The ISO should consider options whereby the set aside amounts are more certain and offers some substantial set aside amounts.</p> <p>Reserving grid capacity for auctions: Supports the allocation of transmission rights through auctions.</p>	<p>Use of Trading Hubs as sources for allocated CRRs: The ISO considered and reviewed with stakeholders a number of options to mitigate the potential for CRR nominations not clearing the simultaneous feasibility test due to the interaction between individual generator and Trading Hub source nominations. The ISO's proposed approach to disaggregate Trading Hub CRRs into individual nodal CRRs would permit LSEs to nominate LT-CRRs that are sourced at Trading Hubs.</p>
SDG&E	<p>Allowable set of verifiable CRR sources: The ISO should broaden its source allocation rules by either allowing known, future resources to be substituted for 2006 resources or placing limits on renewals and LT-CRRs to ensure that CRRs obtained on the basis of resource-verified priority access cannot be locked up beyond the term of the commercial arrangement that gave rise to the allocation priority.</p>	<p>Allowable set of verifiable CRR sources: On this issue the ISO also explored and reviewed with stakeholders several options to expand or substitute the verifiable sources to allow CRR nominations with sources that have 2006 contracts for energy delivered at a later time. The stakeholder discussion of these options highlighted a number of potential problems with this approach, including the potential for double-counting of sources, pro rationing and use of sources that do</p>

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Silicon Valley Power (SVP)	Use of Trading Hubs as sources for allocated CRRs: The ISO should consider treating Trading Hub nominations as multi-point CRR nominations from all generators that are a part of the Hub. The ISO should avoid adversely impacting the awarding of CRRs from generator or import nodes.	Use of Trading Hubs as sources for allocated CRRs: The ISO agrees. The ISO considered and reviewed with stakeholders a number of options to mitigate the potential for CRR nominations not clearing the simultaneous feasibility test due to the interaction between individual generator and Trading Hub source nominations. The ISO's proposed approach to disaggregate Trading Hub CRRs into individual nodal CRRs would permit LSEs to nominate LT-CRRs that are sourced at Trading Hubs.