

**California Department of Water Resources State Water Project
Initial Round of Comments on California Independent System Operator's
CRR Issues Paper**

March 9, 2007

California Department of Water Resources (CDWR) State Water Project (SWP) appreciates the opportunity to provide an initial round of comments on the California Independent System Operator's (CAISO's) Congestion Revenue Rights (CRR) Issues Paper posted on the CAISO's Market Redesign Technology Update (MRTU) Web Page on February 21, 2007 and presented at the CRR Stakeholder Meeting on February 27, 2007. SWP has the following comments:

1. CRR Dry Run Results

The results presented by the CAISO at the February 27th meeting included only the amount of Megawatts (MW) Cleared over the MW Nominated. Presented in this format, the result was somewhat useful and indicated that at EZ Gen Trading Hub (EZGTH) the amount of CRRs cleared is relatively small, following the Seasonal CRR Allocation. In order to be able to better evaluate the CRR dry run results, the SWP requests that CAISO present the stakeholders with:

- a) the results of the CRR Dry run in dollars, in a manner similar to the one used in the CRR Study 2, and
- b) clarifying information regarding which CAISO LMP study data was used to calculate the CRR Dry Run results.

The SWP accepts the CAISO's invitation to discuss one-on-one with each of the stakeholders individual CRR Dry Run results.

2. Potential Changes to the CRR Rules

2.1. Source Nominations at Trading Hubs.

Following the CAISO's release of the CRR Seasonal Tier 1 and Tier 2 Allocation results, the SWP strongly believes that the shortage of CRRs being allocated at EZGTHs in Tier 2 of the Seasonal CRR Allocation is due to the mismatch between the CAISO's CRR design rules for the Source Tier percentage and the Sink Tier percentage. If the MRTU Tariff filed on February 9, 2007 by the CAISO accurately describes the sink percentages for each tier of the CRR Seasonal Allocation, the MRTU Tariff fails to mention the source percentages for each tier of the CRR Seasonal Allocation.

Because CRRs are designed to match sources with sinks, the SWP understood that the CAISO's CRR proposed design in the filed MRTU was intended to follow the CRR Study 2. In other words, sources with sinks are matched evenly

using the same percentage for the source and sink for Tier 1 (up to 50 percent of the Seasonal Eligible Quantity - SEQ), Tier 2 (up to 75 percent of the SEQ), and Tier 3 (up to 100 percent of the SEQ). The SWP was surprised to learn that in Tier 1 of the CRR Annual Allocation an LSE may nominate sources up to 100 percent of the Source SEQ while nominating sinks only for 50 percent of the sink SEQ. When asked whether the above decision was the result of a stakeholder process, the CAISO responded that it was not. It is unclear to the SWP why the CAISO unilaterally decided to mismatch the source and sink percentages. Apparently, the CAISO believes that the proposed design would bring to the LSE the advantage of having priority for the LSE's source nominations.

These above-mentioned concerns, in addition to other CRR issues and questions were presented by the SWP to the CAISO in early December 2006, when SWP submitted comments to the CRR Business Process Manual (BPM) and MRTU Implementation. In the absence of a response to SWP's December comments, the SWP resubmitted the comments package in late January 2007. The information was resent by e-mail to the appropriate BPM Comments and MRTU Implementation CAISO's e-mail addresses. SWP has yet to receive an official answer to the above-mentioned questions and comments. Nevertheless, some of the concepts presented at the February 27th meeting (CAISO CRR Issue Paper at 4.1 "Options for Initial Consideration") did seem to partially incorporate some of the SWP's suggestions.

The SWP believes that the best solution to resolve the EZGTH issue is to match evenly the sink and source Tier's SEQ percentage allocation for each Tier of the CRR Seasonal Allocation. Specifically, Tier 1 sources and sinks may be nominated up to 50 percent of source and sink SEQ respectively, in Tier 2 up to 75 percent of the SEQ, and in Tier 3 up to 100 percent of the SEQ. This alternative (SWP's proposed Alternative 3) goes a step further than the CAISO's proposed alternatives and would, without doubt, address the EZGTH issue. It is important to highlight that although the Dry Run did not present any CRR shortages for other paths, the same issue that affects EZGTH may also affect other paths. The SWP's proposal would address the issue for any path-allocated CRRs.

2.2. CRR Source Verification Rules

The CRR Comments submitted to the CAISO also indicated that there is a need for more source validation for Year One and beyond Year One CRR Seasonal and Monthly allocations.

As described by the CAISO in the MRTU Tariff, the purpose of the CRR is to hedge congestion costs incurred when LSE submits Day Ahead (DA) schedules. The MRTU Tariff also states that the CAISO's CRR Design needs to address Revenue Adequacy to all LSE, meaning that the CRR Balancing Account will not encounter shortages and all LSE will hedge their Day Ahead congestion costs.

The SWP strongly believes that Revenue Adequacy for all LSE will be achieved by correctly matching source with sinks in the CRR Seasonal and Monthly Allocations. Therefore, SWP recommends that the source validation be required for Tier 3 of the Year One Seasonal CRR Allocation. Moreover, the source validation should be maintained beyond Year One, at the same level as Year one.

The SWP understands that the current design for the source validation tries to accommodate issues for Market Participants that have to deal with load migration. However, the SWP strongly believes that more source validation will help CAISO to resolve the EZGTH issue described at above, including Tier 3 Seasonal allocations.

Along the same lines, the SWP suggests that CAISO evaluate the amount of load migration in the CAISO Control Area for year 2006 and determine whether new/additional tariff language needs to be developed to hedge the congestion cost of Market Participants with load migration.

Finally, since SWP is aware of the CAISO's concerns about how time-consuming source validation can be, please note that the source validation data the SWP provided for the Dry Run was sorted and presented to the CAISO in a clear and understandable manner.

2.3 Frequency of Monthly Allocation and Auction Process

The SWP supports the current 12-month design.

2.4 Modeling of Transmission Outages in the CRR Network Model

In order to determine which transmission outage model would provide the best Resource Adequacy (RA) to all Market Participants in the CRR Allocation and Auction, the SWP recommends running various CRR Dry Run sensitivity cases with different models of the transmission outages. Once the results of these sensitivity cases are available, the stakeholders and the CAISO may decide on the transmission outages model.

2.5 Use of Common Forecast for Monthly CRR Eligibility and Monthly RA Showings

The current CAISO CRR design allows prioritization when a Load Serving Entity (LSE) requests CRRs. In the current CRR Seasonal Allocation, one LSE may request subsequently in Tier 1, Tier 2, and Tier 3 of the Seasonal CRR allocation and Tier 1 and Tier 2 of the monthly CRR Allocation sources listed under the RA. When a LSE uses sources listed under its RA for its CRR Allocation, the SWP proposals described in paragraphs 2.1 and 2.2 would be of great help.

It is important to mention that one situation that may arise is that RA sources are usually required to be 115 percent of the LSE's coincidental peak and the LSE's Total Eligibility Quantity for the CRR Allocation is set to its metric load (which is 99.5 percent of the peak load). Because of this mismatch, when using its RA sources to supply its sinks, the LSE requesting CRR has to make its best guess when deciding from which path to request CRR. SWP believes that more discussion is needed on this subject.

2.5 Other issues

At this time the SWP is unable to submit initial comments on:

- CRR Transfers due to Load Migration,
- Methodology for Determining CRRS for Merchant Transmission Upgrades'
- CRR Credit Requirements,
- Set-aside of Import Capacity on each Inter-tie for CRR Auction

Input will be provided in the next round of comments, once the SWP has had the opportunity to analyze these portions of the CAISO's proposals.