Stakeholder Comments on

CRR Issues

Submitted by (name and phone number):	Company or entity:	Date Submitted:
Elizabeth Dorman (415) 703-1415 *edd@cpuc.ca.gov* *Michael Dorsi (415) 703-2317* *mdo@cpuc.ca.gov*	*California Public Utilities Commission*	*April 8, 2008*

The CAISO is requesting initial written comments on the various CRR-related issues discussed at the April 1, 2008 stakeholder meeting. This template is offered as an easy guide for entities to submit comments; however, any participant should feel free to submit comments in any format. Submitted comments will be posted on the CAISO website unless participants expressly ask that their comments not be posted.

The Issues Papers and presentations discussed at the April 1 CRR Stakeholder meeting are posted at: http://www.caiso.com/1b8c/1b8cdf25138a0.html

Stakeholder comments should be submitted by close of business on Tuesday, April 8, 2008 to: CRRComments@caiso.com

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The CAISO offers the following questions as a structure for stakeholder comments:

A. CRR Year 2 Release Process

1. Does your company or entity have comments or suggestions on the historical reference period for verifying Season 1 source nominations in the next annual CRR release process?

CPUC staff tentatively support continuing to use the 2006 reference year for source verification for Season 1 of 2008. However, CPUC staff do believe that a 2007 reference year is a viable alternative, and are willing to reconsider this position if other stakeholders present evidence that it would improve the CRR allocation process and/or outcomes.

CPUC staff strongly believe that whatever base year CAISO decides upon in this current process should not be changed at any future date. Repeated changes in the base *year may incent LSEs to obtain specific contracts in an attempt to secure lucrative CRRs, even though these contracts may be inefficient in other aspects.*

2. Does your company or entity have comments or suggestions on whether CRR Seasons 2 and 3 should be treated as "Year 1" or "Year 2" seasons?

   CPUC staff believe that Seasons 2 and 3 of 2009 should be treated as "Year 2" for CRRs. During year 1, LSEs made choices regarding which CRRs to convert to Long Term CRRs, and which CRRs to simply retain with the opportunity to renew those CRRs in the Priority Nomination Process (PNP) in later years. If CAISO were to treat Seasons 2 and 3 of 2009 as "Year 1," LSEs that opted to obtain annual CRRs and not convert them to LTCRRs with the intent of renewing these CRRs in the PNP for year 2 may lose access to some or all of these CRRs. This may effectively punish LSEs for making prudent decisions in their prior CRR selection.

   Additionally, by erasing the priority assigned to CRRs allocated for Seasons 2 and 3 of 2008, CAISO may incent LSEs to convert as many CRRs to LTCRRs as possible, even if this would not be the otherwise prudent decision. If LSEs fear that annual CRRs are not safely bound to the PNP in future years, LSEs may reasonably decide to opt for LTCRRs, even if the LSE is unsure of the duration underlying supply arrangement. Rather than placing LSEs in the awkward position of deciding their CRR nominations based on how likely they believe CAISO is to "change the rules in the middle of the game," CAISO should treat Seasons 2 and 3 of 2009 as "Year 2" and as a result reassure LSEs that CAISO will not "change the rules in the middle of the game."

3. Does your company or entity have any comments about the treatment of LT-CRRs?

   CPUC staff supports CAISO's proposal to shorten the length of the LTCRRs nominated for Seasons 2 and 3 of 2008 to 9 years. Additionally, CPUC staff believe that Season 1 of 2009 should be treated as "Year 1" CRRs with regard to the volume of CRRs that may be nominated for conversion to LTCRRs. CPUC staff believes that Seasons 2-4 of 2009 and Season 1 of 2010 should be treated as "Year 2" CRRs. CPUC staff believe this to be most in accordance with previous FERC orders and CAISO tariff language, as well as being the outcome that LSEs most likely understood to be the future CRR developments when making their initial nominations.

B. CRR MW Granularity

4. Please indicate the MW granularity that your company or entity prefers for 2009 CRRs:

   0.001 MW granularity

   If possible, please explain the business reasons for your preference.

CPUC staff do not presently believe there would be excessive costs associated with this more precise measurement. However, CPUC staff will reconsider this after reviewing examples to be provided by CAISO and comments by other stakeholders.

C. 30-Day Rule on Outage Scheduling

5. Does your company or entity have comments or concerns about changing the 30-Day Rule to allow exemptions within a 24-hour period?

CPUC staff support the change from a single calendar day to a single 24 hour period. CPUC staff believe this may facilitate maintenance during the hours around midnight, which may incent and facilitate better timing of maintenance on transmission lines.

6. Does your company or entity have any further comments about exemptions to the 30-Day Rule?

No

D. Monthly CRR Eligibility for LSEs Without Verifiable Load Forecasts

7. Please indicate and explain any preference how the CAISO should determine monthly CRR eligibility for an LSE in the absence of load forecasts:

a) Use load data from the last five relevant months
b) Use load data from the immediate previous month
c) Use load data from the same month of the previous year
d) Other suggestions?

CPUC staff have no comments on this proposal at this time.

E. **CRR Credit Policy Enhancements**

8. What is your entity's view on the proposed options to mitigate the credit risk of CRR transfers associated with load migration as discussed in the CRR Credit Issue Paper?

CPUC staff strongly support CAISO's proposal to impose credit requirements related to potential load migration at the time of sale of allocated CRRs. CPUC staff raised this issue in prior stakeholder processes and in comments to FERC, and believe that CAISO is moving in the correct direction.

The CPUC believes that the existing requirement for posting credit creates perverse incentives for LSEs seeking strategies to exit from the CAISO markets, leaving potential deficiencies in the CRR accounts to be paid by ratepayers. An LSE that anticipates it will soon be forced out of business may raise revenue by selling CRRs without being required to immediately fulfill any credit obligations until load migrates *away from the LSE. When that LSE loses load upon going out of business, the no-longer-existing LSE will not be around to pay for counterflow CRRs. Even if an LSE did not actively plan for the aforementioned exit strategy in anticipation of folding, an LSE that closes its doors will not be able to pay counterflow CRR charges for positively valued CRRs that it may have sold prior to folding. Without a credit requirement prior to the time of the loss of load, there is no mechanism for the CAISO to recoup the loss of income from the counterflow CRRs. This establishes incentives for LSEs to engage in behavior that enriches those entities at the expense of California ratepayers.*

It is the view of the CPUC that the sale of a CRR constitutes a risk-reward relationship: the LSE selling the CRR accepts the risk that it may lose load and have to pay future costs, but gains the reward of the immediate influx of revenue. The present credit system, however, externalizes the risk. Rather than forcing the LSE, which benefits from the sale, to pay the cost of posting credit for the potential conterflow CRRs, the current system forces all other market participants to accept some of the risk on behalf of the CRR-selling LSE.

The LSE does bear the risk of a potential obligated CRR payment and associated credit requirement should the LSE lose load but remain in business. However, part of this cost of risk is borne by the ratepayer; i.e., the potential charges that may be required from load if the LSE folds. The CPUC believes that this risk-reward balance should be borne entirely by the LSE making the decision whether to sell the CRR.

The CPUC believes that ratepayer subsidization of LSE risk is bad for two reasons. First, ratepayer subsidization of LSE risk is fundamentally unjust: The LSE selling CRRs may benefit, yet this financial gain will not be passed on to ratepayers. Second, subsidization of LSE risk creates a market distortion. The present policy relieves the CRR-selling LSE of the cost of risk that it passes to other market participants. An economically rational CRR seller will demand a higher price for its CRR if it is required to pay for credit to cover the CRR. Otherwise, ratepayers are subsidizing part of the cost that a CRR seller should be demanding from a CRR buyer, creating a distortion in the market towards more active selling of congestion hedges.

Given the two options presented by CAISO, CPUC staff prefer the requirement that LSEs post credit upon the sale of CRRs rather than CAISO prohibiting trading of allocated CRRs altogether. CPUC staff believe there may be value to having trading centralized in the Secondary Registration System. If CRR trading is prohibited, LSEs may simply resort to transactions outside the CAISO markets, which place the same financial obligation on the LSE, but may be difficult for regulators to monitor. CPUC staff believes that oversight through the tracking opportunities provided in the SRS may be sufficient to merit the adoption of this proposal.

9. What is your entity’s view regarding enhancing the credit requirement calculation for holding Short-Term CRRs?

CPUC staff tentatively support CAISO's proposal to use the minimum of the auction price or the historical expected value for the purposes of determining the credit obligation associated with Annual CRRs. CPUC staff are not in a position to confirm or deny the CAISO claim that "there was a lack of liquidity and market depth" in the CRR auction, and as a result intend to review the input of other stakeholders on this matter.

10. Please comment on the CAISO's intent to re-file the full-term credit coverage for LT-CRRs with the proposed modified credit requirement calculation formula.

CPUC staff tentatively support the re-filing of credit coverage for the full term of LTCRRs. CPUC staff believe that LTCRRs may entail risk to the CAISO greater than just one year, and as such the CAISO should seek to be able to secure credit from LTCRR holders valued for the life of the CRR, not just the present year. CPUC staff have no comment on the valuation for this credit obligation at this time.

11. What is your entity's view on whether to enhance the bidding requirement for auction participation? Should the full Credit Margin, or a portion of the Credit Margin by included in the bidding requirements? If a portion of the Credit Margin is preferred, what is your entity's suggestion on the appropriate percentage?

CPUC staff have no comments on this proposal at this time.

12. Please comment on the proposed Tariff clarification to increase credit requirements for CRRs due to extraordinary circumstances such as extended outage or other circumstances that could dramatically change the risk profile of a CRR.

CPUC staff have no position on this proposal at this time. CPUC staff recognizes that there may be good cause to increase credit requirements due to extraordinary circumstances. However, CPUC staff also believe that CAISO should be cautious when revising credit requirements as there may be situations where an LSE may be able to continue payment for CRRs, but an increased credit requirement would force the LSE into default, and the CAISO may receive a net loss in revenue due to the stronger credit requirement.

13. Does your company or entity have comments on the concept for requiring corporate parent credit backing of affiliated market participants' Estimated Aggregated Liability? Is there merit in this potential change? Should this concept apply to other forms of collateral, or just guarantees? Would this concept present regulatory difficulties for affected entities?

CPUC staff tentatively support CAISO's proposal to make corporate parent credit backing "blanket" multiple affiliated market participants. CPUC staff believe this policy may provide a valuable disincentive against market participants colluding to have one affiliate fail at the expense of ratepayers and to the benefit of the other affiliates and the parent. However, CPUC staff recognize that there are complex issues to resolve on how *to establish any such requirement. As a result, CPUC staff remain open to input from stakeholders on the viability of this proposal.*

F. Other CRR Issues

14. Does your company or entity have further comments or suggestions on these various CRR issues?

    During the April 1 stakeholder meeting, it appeared that the issue of corporate parent credit backing may require substantially more time to resolve than other issues. CPUC staff believe that, if this is the case, that the issue of corporate parent credit backing, and only that one issue, should be moved to a different schedule for the stakeholder process. CPUC staff prefer that all other CRR policy changes remain on the stated schedule to be submitted to the CAISO board in May of 2008.