Market Design 2002 Project (MD02)

Development of Allocation Rules for Congestion Revenue Rights (CRRs)

Two Sequential Objectives

1. Develop Strawman “CRR Request Validation Rules” – Guidelines for LSEs to submit CRR requests, and procedures for validating submitted LSE requests. Strawman rules needed by mid June 2004 to use as basis for LSE CRR requests to be incorporated in CRR Study 2.
2. Develop “CRR Allocation Rules” – Include Request Validation Rules, plus allocation procedures such as CRR allocation/auction objective function, rules for adjusting CRR allocations to achieve simultaneous feasibility, etc. Many as-yet undecided elements of Allocation Rules will be scenario variables in CRR Study 2. Final Allocation Rules to be included in MD02 Tariff filing.

Some Possible Elements of CRR Request Validation Rules for CRR Study 2

1. Total CRR MW request of each LSE should be no greater than specified upper bound, based on annual peak, monthly peak, load duration curve. For example, upper bound for annual CRRs may be 75% of the 99.5% point on load duration curve.
2. CRR requests must have generation node or inter-tie scheduling point as source. Study 2 intends to assess adequacy of CRRs to hedge total congestion cost exposure from actual sources to load, not just from trading hubs to load.
3. LSE cannot request more MW from a given source node than the generating capacity or import capacity at that source node.
4. For a generating unit owned by a LSE, only that LSE can request CRRs from that generator, unless owning LSE agrees to allow another LSE to use that generator.
5. Requests by LSEs for CRRs from an inter-tie scheduling point will be limited to each LSE’s historic use of that inter-tie to serve its load.
6. Requests can be divided into Point-to-Point, Network Service (NS) and priority groupings. There may be percentage restrictions on priority groupings.
7. Sink for each LSE’s CRRs may be a Load Aggregation Point or a specific node or set of nodes, but must be consistent with the geographic granularity of that LSE’s scheduling and settlement.
8. Previously converted ETCs and merchant transmission may request CRR options; all other parties will be allocated obligations.
9. CRRs requested by MSS must sink at Load Aggregation Point, but the quantity may be gross or net depending on the MSS’s chosen settlement option. For example, if the MSS intends to settle on its net load (after subtracting internal generation, then only that net load is exposed to congestion charges and needs an allocation of CRRs.

Key Milestones and Proposed Timing

<u>1. CRR Request Validation Rules</u>

May 14 – Initial stakeholder discussion of Request Validation Rules.

May 21 – Release Draft Request Validation Rules for stakeholder review.

Week of May 24 – Conference call to discuss draft rules and identify issues.

Week of May 31 – Stakeholder meeting to discuss and evaluate options for resolving issues.

Week of June 7 – Revise Request Validation Rules per stakeholder discussion and use as basis for drafting LSE CRR Request Instructions.

Week of June 14 – Release revised Request Validation Rules and LSE CRR Request Instructions to initiate CRR request process for CRR Study 2.

Week of June 21 – Conduct conference calls to discuss, clarify and perform any needed fine tuning to Request Validation Rules and LSE CRR Request Instructions.

Date TBD – LSE CRR Requests due to CAISO.

CRR Study 2 Report – December 2004.

<u>2. CRR Allocation Rules</u>

June – December 2004 – various dates TBD – continuing stakeholder process to develop final CRR Allocation Rules for MD02 Tariff.

First Quarter 2005 – Utilize CRR Study 2 results to identify needed modifications to final CRR Allocation Rules. Finalize Allocation Rules for Tariff filing.