PG&E Comments on

CRR Issues

Submitted by (name and phone number):	Company or entity:	Date Submitted:
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The CAISO requests additional written comments on the Straw Proposals for various CRR-related issues discussed during the April 21, 2008 conference call.

The Straw Proposal Papers and presentations are posted at:
http://www.caiso.com/1b8c/1b8cdf25138a0.html

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.

Stakeholder comments should be submitted by close of business on Monday, April 28, 2008 to:
CRRComments@caiso.com

Please offer any comments on the following Straw Proposals:

A. CRR Year 2 Release Process

1. Using Season 1 2007 as the historical reference period for verifying Season 1 source nominations in the next annual CRR release process.

   Do not oppose. While the use of Season 1 2007 is an improvement over the default use of Season 1 2006 as the historical reference period, as a preferable alternative PG&E would recommend that the verification should be set to the most recent historical date possible to better reflect current portfolio hedging needs; specifically Season 1 2008 should be used as the source verification period for 2009 Season 1 CRRs. While the possibility has been suggested that parties could have shaped 2008 contractual arrangements in anticipation of CRR source verification, the benefits of the use of a more timely historical justification period may outweigh these uncertain impacts of these speculated possibilities.

2. Treating CRR Seasons 2 and 3 as "Year 2" seasons that are eligible for the Priority Nomination Process in the next annual CRR release process.

   Support. The 2008 Season 2 and 3 CRRs for 'Year 1' have been issued, the treatment of 2009 Season 2 and 3 are therefore appropriately treated as 'Year 2' CRRs and subject to the Priority Nomination Process (PNP). To consider otherwise would undermine a key understanding and expectation with respect to the durability of the CRR PNP. PG&E supports the CAISO direction to conduct the PNP in the next release process and to eliminate further consideration of any 'Year 2' alternatives.

3. Confirming that Season 4 CRRs will be eligible for the Priority Nomination Process in the next annual CRR release process.

   Support. Similar to 2008 Seasons 2 and 3, Season 4 CRRs for 'Year 1' have been issued, and consistent with the justification outlined above (item no. 2), the treatment of 2009 Season 4 CRRs are appropriately treated as 'Year 2' CRRs utilizing the PNP.

4. Confirming that Q1 LT-CRRs should be treated under the "Year 1" nomination limit, and Q2-4 LT-CRRs should be treated under "Year 2" nomination limit in the next annual CRR release process.

   Support. CRRs and LT-CRRs that have been issued should be considered and treated in conformance with the MRTU tariffs. Given that the initial LT-CRRs for Seasons 2-4 have been released, the following Seasons 2-4 LT-CRR processes should correctly reflect existing 'Year 2' tariff provisions and limitations. However since LT-CRRs for Season 1 have not yet been released, this upcoming process should reflect 'Year 1' tariff provisions.

B. CRR MW Granularity

5. Adopt the 0.001 MW level (1kW) for the next annual release of CRRs.

   Support. PG&E preference has been to allow for the accurate management of CRR and LT-CRRs. While recognizing that increased granularity above the present 0.1 MW or alternative 0.01 MW threshold increases the number of CRR that must be tracked, this is the preferable trade-off to avert the significant transaction losses due to hub disaggregation or load migration that smaller granularities impose. In order to provide the flexibility needed to fully manage a portfolio of CRRs, all aspects of the CRR process including allocations, auctions, migration reassignments, and transactions tracked through the secondary registration process should utilize consistent granularities. It would be inappropriate to assign CRRs using a 0.001MW granularity, for example through hub disaggregation or load migration, if the market participant would be unable to rebalance (through allocations, sales or purchases) at this same level of granularity.

C. 30-Day Rule on Outage Scheduling

6. Modifying the 30-Day Rule so that outages initiated and completed within a 24-hour period are exempt (instead of one day).

   Support. Revising the outage exception rule from a 'one calendar day' to a '24 hour period' is a more flexible, practical and expected to have little or no incremental adverse impacts to CRR balancing account revenue adequacy.

7. Eliminating the exemption criteria that are detailed in Section 10.3.1 of the BPM for CRRs until actual LMP market experience unfolds.

   Do not support. As indicated in previous comments to the CAISO and FERC, PG&E believes the 30-day outage exceptions criteria are not supported as currently defined. The CAISO's BPM definition of outages is largely unworkable because it is not feasible to schedule essentially all transmission outages 30 days in advance of the beginning of the calendar month in which the outage is to occur.

   While PG&E fully supports efforts to improve the exemption criteria, the CAISO proposal to merely *drop* all such provisions, with no proposed replacement or alternatives, is not supported. PG&E appreciates the CAISO considerations with respect to a conservative approach to CRR revenue adequacy, however there should be an appropriate balance between CRR revenue concerns and the impacts on actual management and implementation of transmission outages.

   Approximately 6 months after the start of MRTU the CAISO has indicated that it would begin an empirical assessment of outage modeling and would consider potential development of a new outage exemption policy after 12 months of market operations under MRTU. PG&E recommends and requests that the CAISO reconsider this approach and to more quickly develop and implement 30-day exemption criteria for those outages that are expected to have limited or acceptable impacts on congestion and CRR revenue adequacy, and specifically in coordination with the Transmission Maintenance Coordination Committee (which has been working on the development of more balanced and workable criteria since last year).

8. Developing an analytical methodology for assessing the impacts of outages on CRR revenue adequacy, and assessing with stakeholders whether revisions to the 30-day rule exemption policy are appropriate.

   Support. As indicated above, PG&E supports the development of a new 30-day rule exemption criteria; however the development and adoption of an alternative policy should not be deferred any further. The lack of a practical 30-day exemption process has the potential to unnecessarily increase transmission maintenance costs.

D. Monthly CRR Eligibility for LSEs Without Verifiable Load Forecasts

9. In the absence of a verifiable load forecast, using the historical load of the same month from the previous five years.

   Support. This category of load will typically be driven by hydrological conditions that change significantly from month to month and from year to year. While PG&E would prefer to simply submit a load forecast to be used as the basis for the monthly CRR eligibility, in the alternative, the use of a five year average (five of the previous same months) would tend to mitigate the month-to-month and year-to-year hydrological differences. PG&E also supports the recent elimination of any LSE 'options' to select alternatives, such optionality could have created the possibility of adverse gaming behaviors.

E. **CRR Credit Policy Enhancements**

10.
   a. Disallow netting between allocated CRRs and auctioned CRRs in the credit holding requirement calculation.

      Support. Consistent with earlier comments and design recommendations, PG&E continues to advocate for strong credit requirements for CRR and LT-CRR participants. Current credit policy allows netting in the CRR holding requirement. It is possible that a load-loosing LSE may not have the financial capability to cover the assigned counter-flow CRRs used by the CAISO to address load migration since either the LSE may have already sold the allocated CRR, or may have procured offsetting counter-flow CRRs through the CRR auctions. The disallowance of netting between allocated CRRs and auctioned CRRs would resolve this later situation; while potentially increasing the credit requirements for some participants, PG&E supports this proposed change.

b. Require LSEs selling allocated CRRs to maintain sufficient credit coverage to cover the counterflow CRRs that offset the CRRs being sold.

Support. Consistent with the above concern, an LSE that was allocated and subsequently sold CRRs may not have the financial capability to cover counter-flow CRRs assigned by the CAISO as a result of load migration. To prevent such an occurrence, PG&E supports the CAISO proposal to require LSEs' selling allocated CRRs to maintain sufficient credit coverage to cover potential counterflow CRRs.

11. Including historical LMPs (a year after MRTU start-up) to improve the credit requirement for holding short-term CRRs.

Support, with a recommended enhancement. The proposed enhancement to use the most significant of either the Historical Expected Value (added measure) or the Auction Price results (existing measure) in establishing credit requirements is appropriate and will provide an added measure of credit protection under circumstances where Auction participation may be thin and prices are anomalously unrepresentative of expected congestion costs.

However PG&E continues to recommend that rather than wait for one year after the start of MRTU to implement this enhancement as LMPs 'actual' become available, that the CAISO consider implementation of this additional requirement concurrent with MRTU (or as soon as the supporting software becomes available) using LMP Study 3C results. While there is some uncertainty expressed by PG&E and the CAISO with respect to ability of the LMP Study 3C data to fully reflect future MRTU LMPs, the use of this data would none-the-less improve the level of credit protection and is recommended as the conservative approach. PG&E is open to other ideas for a proxy for the historical expected value for the first year. However, it is our belief that to operate the market without this important protection for the first year leaves a sizeable hole in credit protection during the period in which the market may be most vulnerable to credit gaming and risks.

12. Adding a full credit margin to the bidding requirement for participation in CRR auctions.

Support. Defaults without sufficient credit protections create cost concerns for all market participants. CRR default concerns are heightened particularly within the area of auction participation. PG&E supports increasing the minimum pre-auction credit requirements to properly reflect not only bid prices but also the credit margin obligations associated with holding the to-be-acquired CRRs. The full credit margin should be provided; to do otherwise, such as requiring only a portion of the credit margin, would create the potential for a default short-fall that would unduly burden all other market participants.

F. Other CRR Issues

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

While recognizing software development limitations, to the full extent possible, the three CRR credit requirement enhancements proposed by the CAISO (above) should be implemented prior to the start of next MRTU CRR acquisition process. It is possible that prices, volatilities, and credit exposure risks will be abnormally high during the first year of MRTU, the new proposed credit protections should be implemented as soon as possible to address these 'new market' risks.

PG&E appreciates the CAISO decision to defer at this point a number of issues that PG&E had suggested are in need of additional discussion and understanding, including credit coverage for LT-CRRs, CRR credit requirements for Extraordinary Circumstances and Corporate Credit Backing of Affiliates. However PG&E supports initiating as soon as possible the stakeholder processes to fully develop these initiatives so as to minimize the time the market is operating without these important protections.

CAISO has not proposed a detailed schedule for source verification, but has only indicated that the allocation process will occur between August 8 & September 3, 2008. PG&E requests that the CAISO post the source verification schedule in the final proposal so that market participants can plan their work schedule accordingly.

Last year, CAISO released the Full Network Model (FNM) within a few days of the start of Tier 1. The Tier 1 FNM was very different than the FNM the market participants were previously issued which caused objections from PG&E and others market participants that ultimately resulted in a delay of the start of Tier 1. To avoid a similar problem this year, PG&E requests that that CAISO commits to a date which they will release the FNM (including ETC/TOR/CVR amounts) allowing for sufficient time prior to the start of allocation process.