

Stakeholder Comments Template

Subject: CRR Enhancements – Draft Final Proposal on CRR Non-Credit Issues

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the following topics in regards to CRR Enhancements. Upon completion of this template please submit (in MS Word) to jprice@caiso.com. Submissions are requested by close of business on December 30, 2009.

Please submit your comments to the following questions for each topic in the spaces indicated.

Draft Final Proposal on Non-Credit Issues

During the stakeholder conference call on December 16, 2009, the ISO described its Draft Final Proposal concerning several non-credit CRR enhancements. Please refer to the ISO's Draft Final Proposal document at <http://www.caiso.com/2481/2481f0af50a50.pdf>, and presentation at <http://www.caiso.com/2486/2486ed1dc3b0.pdf>, to find details of the ISO's Draft Final Proposal.

1. Load Migration Process

So that the ISO can provide a tabulation of stakeholder positions on the ISO's Draft Final Proposal concerning the process for adjusting CRR holdings to reflect load migration, please provide a brief statement of your position, such as "support", "oppose", "neutral", or similar statement: **Oppose**.

Does your position on this proposal depend on the outcome of another proposal, such as supporting this proposal only if another proposal is also adopted?

PG&E opposes this proposal because CAISO made a counter-proposal to expand the scope of the Load Migration Working Group during the first conference call of that working group (December 21) that would eliminate the need for this process changes. Summarizing CAISO's counter-proposal: the efficiencies gained from implementing the previous load migration process enhancements were less than expected or desired. As such, CAISO would like to revise the entire load migration

process such that fewer CRRs are transferred (on a transactional basis not a MW basis). If CAISO's new counter-proposal is implemented it may obviate the need for CAISO to implement the proposal in the "Draft Final Proposal on Non-Credit Issues Near-term Enhancements to Congestion Revenue Rights" dated December 10.

PG&E agrees with CAISO in this regard, that spending time developing the December 10 proposal is not worthwhile if the working group is exploring more substantial changes in the Load Migration process.

Do you have any other comments, questions, concerns, or other ideas regarding this proposal?

PG&E requests that this proposal be removed from subsequent proposal documents regarding Near-Term CRR Enhancements until the working group produces a proposal. Given the uncertainty surrounding this proposal and the significant effort that will be required build consensus among the working group, it is premature to include this proposal in a "Draft Final" document.

2. Modeling and Treatment of Trading Hubs

So that the ISO can provide a tabulation of stakeholder positions on the ISO's Draft Final Proposal concerning the method for handling trading hubs in the CRR release, please provide a brief statement of your position, such as "support", "oppose", "neutral", or similar statement: **Oppose.**

Does your position on this proposal depend on the outcome of another proposal, such as supporting this proposal only if another proposal is also adopted? **No.**

Do you have any other comments, questions, concerns, or other ideas regarding this proposal?

PG&E opposes implementation of this proposal until key issues can be resolved. On the December 18 conference call, PG&E asked if, under this proposal, Trading Hub CRRs awarded in the Priority Nomination Tier (PNT) are eligible for nomination in Tier LT. CAISO was not clear if this was prohibited under the current tariff but stated it felt that Trading Hub CRRs should not be eligible for conversion to Long Term.

PG&E believes Trading Hub CRRs should be eligible for nomination in Tier LT if they are awarded in the PNT. PG&E notes that under current rules, disaggregated CRRs allocated from Trading Hub nominations in the previous year's allocation process are eligible for PNT nomination and subsequent Tier LT nomination (if awarded in PNT). As such, PG&E sees no reason that this practice cannot be extended to CRRs at the Trading Hubs.

PG&E initiated this proposal on modeling and treatment of Trading Hubs so it strongly supports the concept. However, implementation should be postponed until this issue has been resolved. PG&E's intent in making this proposal was that it would result in the same amount of eligible CRRs in all the Tiers as under current rules while simplifying the administrative burdens associated with the current practice of Trading Hub disaggregation. PG&E believes it would be beneficial to all market participants to affirm that the amount of CRRs eligible for nomination in the Annual, Long-Term and Monthly Allocation Tiers will remain the same with respect to current rules and to identify sections of the tariff which will need revisions. Any change in the eligibility of certain CRRs to be nominated or allocated resulting from this proposal would need to be justified.

PG&E also asks CAISO to post the formula it derived to calculate counter-flow CRRs under this proposal.

3. Weighted Least Squares Objective Function

So that the ISO can provide a tabulation of stakeholder positions on the ISO's Draft Final Proposal concerning the weighted least squares objective function, please provide a brief statement of your position, such as "support", "oppose", "neutral", or similar statement:
Oppose.

Does your position on this proposal depend on the outcome of another proposal, such as supporting this proposal only if another proposal is also adopted? **No.**

PG&E notes that the Weighted Least Squares Objective Function (WLS) is mathematically proven to be sub-optimal which will result in fewer CRRs being allocated to the market than under the current objective function. Since market participants, on the whole, are likely to receive fewer CRRs under WLS, it would be least disruptive to time implementation of this proposal with relaxation of restrictions regarding Monthly Tier 1 nominations.

If PG&E's concerns (see below) can be addressed to the point that it can support this proposal, PG&E's support would be contingent on simultaneous implementation with the CAISO Proposal No. 5 (Tiers in Monthly Allocation).

Do you have any other comments, questions, concerns, or other ideas regarding this proposal?

PG&E has a regulatory responsibility to act in the best interest of its customers. Without adequate data to evaluate the impact of WLS (or any proposal), PG&E cannot support a proposal that is proven to be sub-optimal and results in fewer CRRs allocated. It should be noted that even if WLS results in fewer CRRs allocated to PG&E, PG&E may be able to support WLS because the specific CRR source-sink pairs awarded are as important as the total CRR amount awarded.

Previously, the CAISO stated it “believes that its evaluations of proposals should reflect sound market design principles, rather than incremental changes in market outcomes that would cause market participants to prefer one outcome to another. The comparisons provided by the ISO demonstrate that the WLS formulation produces more equitable market outcomes among market participants to relieve congestion, rather than imposing most if not all of curtailments on single market participants (whether large or small).”¹

PG&E submits that the stakeholder process is inherently a forum that allows market participants to evaluate how proposals will impact them. The role of CAISO should be to address the competing interests of market participants and fashion a proposal that creates the greatest benefit for greatest number of participants. Clearly this is a subjective role and disagreements are guaranteed. Dismissing stakeholder requests for more information is not helpful to the stakeholder process.

As such, PG&E is very pleased that the CAISO has since acknowledged the benefits of simulations and the publication of results on the December 18 conference call. However, PG&E is concerned that CAISO’s support seemed to only extend to asking its software vendor to evaluate previous actual nominations with WLS. PG&E believes this form of simulation is sufficient if the software vendor can evaluate these nominations. If the software vendor cannot perform this form of simulation, PG&E urges the CAISO to seek other forms of simulation that are both manageable and provide useful information.

In footnote #8 of the December 10 paper, CAISO states “PG&E also asks how the ISO will determine whether the benefits of implementing WLS exceed its costs. Since the ISO has concluded that there is sufficient stakeholder support to proceed with WLS implementation, such analyses would now be moot.” This suggests that the CAISO has taken PG&E’s previous position as being supportive of WLS. In its written comments dated November 23, PG&E stated “PG&E does not object to CAISO’s proposal on this issue although PG&E does request more simulations be conducted to see the impact vis-à-vis the current objective function.” PG&E is not supportive of WLS until the aforementioned simulations and cost/benefits analysis can be provided by the CAISO. The results of this analysis will enable an informed decision and more likely lead to an affirmative endorsement of WLS.

PG&E requests that this proposal be removed from subsequent Draft Final documents. The time required to run and evaluate the simulations that PG&E requests is unknown and could be lengthy. PG&E believes it is misleading to include this proposal with other proposals that have unanimous support.

4. Multi-point CRRs

¹ “Draft Final Proposal on Non-Credit Issues Near-term Enhancements to Congestion Revenue Rights (CRR)”. 10-Dec-2010. p22. <http://www.caiso.com/2481/2481f0af50a50.pdf>

So that the ISO can provide a tabulation of stakeholder positions on the ISO's Draft Final Proposal concerning the elimination of multi-point CRRs, please provide a brief statement of your position, such as "support", "oppose", "neutral", or similar statement:

Neutral.

Does your position on this proposal depend on the outcome of another proposal, such as supporting this proposal only if another proposal is also adopted? **Yes.**

PG&E notes that the elimination of multi-point CRRs reduces the nomination options available to market participants. This could result in market participants receiving fewer CRRs than before. To offset this potential, PG&E suggests that the elimination of multi-point CRRs occur concurrently or after the implementation of changes in the rules concerning the monthly tiers (Proposal #5).

Do you have any other comments, questions, concerns, or other ideas regarding this proposal?

PG&E has no other comments on this proposal at this time.

5. Tiers in Monthly Allocation

So that the ISO can provide a tabulation of stakeholder positions on the ISO's Draft Final Proposal concerning the refinement of tiers in monthly CRR allocation, please provide a brief statement of your position, such as "support", "oppose", "neutral", or similar statement: **Support.**

Does your position on this proposal depend on the outcome of another proposal, such as supporting this proposal only if another proposal is also adopted? **No.**

Do you have any other comments, questions, concerns, or other ideas regarding this proposal?

PG&E supports the proposals made by CAISO to refine the tiers in monthly allocation process. Specifically, PG&E supports

- **retaining two tiers in the monthly process;**
- **allowing SubLAP nominations in both tiers of the monthly process;**
- **allowing 100% of monthly eligible quantity, less previously awarded CRRs for the same period, be available for nomination in both tiers of the monthly process.**

Although PG&E supports the aforementioned refinements, it must be noted that the refinements do not address the stated objective of "reducing the amount of time required by CRR participants as well as the CAISO to perform the monthly CRR Allocation." PG&E directs readers to its comments dated November 23 for more detailed comments regarding this concern.

CAISO has stated that re-examination of the 30 Day Outage Rule “will get added to the list of CRR policy topics for future consideration.” Indeed, the impetus for this proposal was an attempt to give market participants more time during the monthly process. The proposal has been adjusted to address issues other than its original intent. Although PG&E supports the proposal, PG&E reiterates its concern over the issue of more time needed during the monthly process and believes it should be given high priority.

6. Sale of CRRs in CRR Auctions

So that the ISO can provide a tabulation of stakeholder positions on the ISO’s Draft Final Proposal concerning the sale of CRRs in the CRR auction, please provide a brief statement of your position, such as “support”, “oppose”, “neutral”, or similar statement:
Support.

Does your position on this proposal depend on the outcome of another proposal, such as supporting this proposal only if another proposal is also adopted? **No.**

Do you have any other comments, questions, concerns, or other ideas regarding this proposal?

PG&E supports the proposal made by CAISO to provide a sell feature in the monthly and annual CRR auctions.

7. Modeling Approaches to Improve Revenue Adequacy

The ISO is proposing to examine the modeling of transmission outages to reinforce CRR revenue adequacy after 12 months of operating experience under MRTU. Do you have any comments, questions, concerns, or other ideas regarding this topic that the ISO should consider at this time?

CAISO stated “CRRs were revenue inadequate in the ISO markets for the months of April and May 2009, leading the ISO to further consider its modeling approaches to reinforce CRR revenue adequacy in light of transmission outages. A notable characteristic of these months is that they are the time for completion of transmission maintenance work before the summer season begins. Since then, the ISO has limited the quantity of CRRs that are released in the monthly CRR process, and the revenue inadequacy has been less of a concern that [sic] it was in these initial months.”²

PG&E is concerned that this statement may be misinterpreted. Of particular concern is the phrase “revenue inadequacy has been less of a concern that [sic] it was in these initial months.” This may lead the casual reader to believe that revenue

² “Draft Final Proposal on Non-Credit Issues Near-term Enhancements to Congestion Revenue Rights (CRR)”. 10-Dec-2010. p25. <http://www.aiso.com/2481/2481f0af50a50.pdf>

adequacy has been more frequently achieved since May 2009. In fact, the opposite is true.

Starting with the first full monthly process after instituting a 15% global derate factor (June 2009) and continuing through November 2009, CAISO has achieved revenue adequacy in only 2 out of 6 months according to its Monthly Market Performance Reports. The largest monthly revenue shortfalls occurred during this six month period. It's clear that the global derating of 15% has not significantly improved the likelihood of achieving revenue adequacy.

PG&E believes this issue should be given highest priority in the next round of enhancements. Specific areas for consideration that would improve both revenue adequacy and the availability of CRRs in the monthly process should include the possible adoption of outage derate factors specific to line voltages, line configurations, geographic significance, and possibly down to consideration of specific lines based on unique outage histories and operational characteristics.

8. Tracking of Long Term CRRs

The ISO is proposing to proceed with implementation of the tracking of long-term CRRs in the CRR system. Do you have any other comments, questions, concerns, or other ideas regarding this proposal? **Support.**

PG&E supports the proposal made by CAISO to track the full term of all Long Term CRRs in the CRR system.

9. Signature Data in Priority Nomination Process

The ISO is proposing to develop tariff language to support its process concerning the "signature data" as it develops other tariff language for its Draft Final Proposal. Do you have any comments, questions, concerns, or other ideas regarding this topic that the ISO should consider at this time? **Support.**

PG&E supports the proposal made by CAISO to modify tariff language with respect to the priority nomination process.

10. Other Comments?

PG&E is concerned by the absence of discussion regarding the process for liquidating the CRRs of a defaulting CRR holder. The possibility of a market participant defaulting is always present. PG&E appreciates the difficulty associated with certain aspects of CAISO's previous proposal. To facilitate new discussion on this topic, PG&E requests that CAISO begin by sharing its procedure on how it would deal with a defaulting party under the current tariff. By examining the detailed steps, improvements or shortcomings associated with the current process

may be identified. CAISO suggested uncertainty with its process when it appeared a party would default in 2009. Simply identifying the steps in the current liquidation process will give market participants more confidence in the process.

On a weekly CRR conference call, it was mentioned that discontinuing the Secondary Registration System (SRS) is being considered. Lack of activity on the SRS was cited as the major factor. PG&E suggests that one reason for the lack of activity is that market participants are not informed when a CRR bid or offer is posted. On the conference call, it was stated by one market participant that another market participant posted a CRR bid or offer on SRS. PG&E was not aware of that. Indeed, CAISO staff seemed unaware of this. PG&E recommends that a communication system be implemented to quickly inform all market participants when a bid or offer is posted on the SRS. PG&E believes the SRS is a preferable platform to conduct bilateral transactions of CRRs when compared to the alternatives discussed on the conference call.

PG&E appreciates the opportunity to provide comments on these CRR Enhancements. For follow-up or questions, please contact Dan Sparks (415-973-4130), Glenn Goldbeck (415-973-3235) or Derick Stowe (415-973-5662).