

Comments on 2011 CRR Straw Proposal

Submitted By	Company or Entity	Date Submitted
Gifford Jung 604-891-6040	Powerex Corp.	April 29, 2011

Powerex appreciates the opportunity to provide these limited comments on the CAISO's 2011 CRR Straw Proposal.

Revenue Adequacy Issues

As previously stated, Powerex supports the CAISO's efforts to improve CRR revenue adequacy in general. Powerex strongly supports the CAISO's proposal to establish a "break-even OTC value" for each interface by season and TOU. Powerex believes that this proposal creates a reasonable expectation of revenue adequacy by intertie which is a significant improvement over the current process. Experience to date has shown that the Global De-rate Factor, GDF, was not an effective tool for ensuring revenue adequacy on the interties.

However, Powerex strongly objects to the CAISO proposal to reduce the capacity released in the annual CRR process from 75% to 65%, especially on the interties. Market participants make transmission investments outside of the CAISO markets to ensure they can support their bids and deliver energy and capacity to the CAISO. Those transmission investments can be long-term, five years or longer. The annual CRR auction, though a poor fit on a temporal basis, is the only market process available to external suppliers to acquire CRRs to manage their congestion risks. Without the ability to hedge congestion, external suppliers will over time commit their energy and capacity to other more favorable markets and result in reduced liquidity on the interties.

In addition, with the improved capacity setting process on the interties, Powerex questions the need to set aside additional capacity for the monthly process. Unlike the "one size fits all" GDF setting procedure, the break-even OTC value will ensure there is capacity available for the monthly process on every intertie absent an unforeseen catastrophic event so there should be no need to shift capacity availability from the annual to the monthly process.

LT Auction

As stated previously, Powerex strongly encourages the CAISO to consider adding a long term CRR auction to the CRR process. As stated above, market participants have made long term transmission investments to ensure deliverability to the CAISO markets. Without the ability to acquire a congestion hedge of similar duration, five to ten years, market participants may choose over time to commit their resources to other markets.

FERC through the pro-forma OATT has established rules that enable long term investments in point-to-point transmission. The CAISO needs to recognize that if it does not have a similar long

term product; investments in transmission and capacity will be made in other markets and will lead to a reduction in liquidity on the interties over time. The right time to make changes to the CAISO's market rules is when the market rules have changed in adjacent markets not when the impact of those changes manifest themselves. In Powerex's opinion, it will be much too late, and probably expensive, to play catch up when the impact becomes apparent.