

Powerex Comments on California ISO (“ISO”) CRR Issues Paper of Feb. 21, 2007

Powerex appreciates the opportunity to comment on the ISO CRR Issues Paper and the presentations by ISO Staff at the Feb. 27, 2007 Stakeholder meeting.

In section 4.2 of the Issues Paper, the ISO describes the intertie capacity set aside proposal as filed Feb. 9, 2006 and the requirement of the FERC MRTU Order to modify the proposal and make a compliance filing if necessary. The ISO has also provided the data representing the set aside quantities in its Nov. 20, 2006 compliance filing and also the data representing the sum of the set aside quantities and any unawarded intertie capacity after Tier 3 of the annual allocation of the dry run. At the Feb. 27, 2007 stakeholder meeting, the ISO presented the results from the CRR Dry Run that included the allocation percentage at the branch groups.

Powerex participated in the CRR Dry Run and through that process has a number of observations that Powerex believes needs to be addressed before finalizing the ISO’s CRR proposal.

The Year 2 and Beyond Intertie Capacity Set Aside Procedure will Erode Away the Intertie Capacity Set Aside to Zero

Powerex understands that in Year 2 and beyond, the ISO sets aside 50% of the import capacity at each scheduling point that remains after the tier 1 and tier 2 allocations. This is a significant change from the treatment of import capacity in Year 1 because it allows LSEs to nominate import capacity that was set aside for the auction in Year 1. For example, in Year 2 an LSE could give up internal CRRs in the Tier 1 renewal tier to instead nominate intertie CRRs in Tier 2. Furthermore, the potential exists for the import capacity set aside to be eroded every year subsequent to Year 2 if LSEs continue to give up internal CRRs for intertie CRRs in either their Tier 1 nominations or the free Tier 2 nominations. This outcome seems inconsistent with what the ISO intended when it introduced this import set aside provision in the CRR section of the MRTU tariff which is to ensure continuity for a reasonable amount of MW of transmission rights on the interties set aside for auction. At the very least, the intertie CRR set aside should be performed after Tier 1 and not Tier 2.

The Decision to Change the Historical Reference Period (Used for Source Verification) to Calendar 2006 Could Degrade the Intertie Capacity Set Aside

Based on the discussion at the Feb. 27 stakeholder meeting, the ISO assumes that the historical reference period used in the CRR source verification process will be calendar 2006. Aside from the fact that the change in the historical reference period makes the CRR Dry Run results less relevant overall, Powerex believes that the change in the historical reference period could reduce the intertie capacity set aside. This is because there may be a greater percentage of intertie capacity utilized with source verified contracts in the 2006 period which will reduce the intertie capacity available for auction. The CAISO has admitted that they do not know what the impact will be by changing the historical reference period and will not know the final residual and set aside quantities at the interties until shortly before the CRR allocation and auction process.

There is No Reasonable Basis for the ISO to allow Daily Contracts at the Interties to Count Towards Source Verification

During the CRR Dry Run, the ISO allowed LSEs to use contracts of less than 1 month including daily contracts for CRR source verification. This is contrary to what Market Participates understood to be allowed under both the BPM and Tariff which specifically states contracts must be a minimum of 30 days. Accepting contracts with durations shorter than one month for CRR source verification runs the risk of double counting for an annual CRR process. Powerex believes that allowing up to daily contracts creates a significant amount of administration for the ISO with very little benefit overall to the market as confirmed by the ISO that there were minimal MW quantity using daily contracts for CRR source verification in the CRR Dry Run (ISO indicated approximately 1%).

The ISO Needs To Set Aside 100% of The Intertie Capacity That Will Increase the Probability that a Significant Amount of Intertie CRRs will be Feasible in the Auction

Powerex proposes that the ISO staff set aside 100% of the intertie capacity for the auction to remedy the problems with the ISO's partial set aside proposal as evidenced by the CRR Dry Run results. By setting aside all intertie capacity for auction, the ISO will provide certainty to all market participants, including LSEs, by allowing it to be known well in advance of the CRR allocation and auction process how much of the intertie capacity will be set aside without the need to wait for the ISO to complete another round of source verification.

Powerex's proposal will address the first two issues of concern raised earlier in these comments but more importantly it will address the most significant issue that was observed from the CRR Dry Run with respect to the likelihood of actually obtaining an intertie CRR in the auction even if there is intertie capacity set aside. Based on the CRR Dry Run results, the ISO observed that a residual value amount (i.e. set aside of import capacity on each intertie) does not guarantee the clearing of bids in the auction or allocation since the source and sink bid or nomination still needs to clear the SFT for all constraints.

The CRR Dry Run data of intertie results indicate that branch groups to external control areas where MW bids exceeded MW set aside had intertie CRR awards at significantly less than the set aside amount. The table attached is based on ISO data provided at the stakeholder meeting and illustrates this result on major branch groups between the ISO and external control areas. The highlighted sub-set in the attached table clearly shows that in the auction, bids exceeded the residual set aside but the amount of intertie CRRs was less than the residual set aside, even though the MW awards included counterflow. In summary for this sub-set, there was 8,884 MW of residual set aside, 20,281 MW of bids, and only 4,864 MW (55% of the set aside) was awarded as intertie CRRs leaving 4,020 MW (45% of the set aside) not awarded. This outcome is inconsistent with the principle expressed by the ISO in its Feb. 2006 MRTU filing and supported by the Commission that market participants that are not allocated intertie CRRs should be guaranteed a reasonable opportunity to obtain a reasonable

amount of inertie CRRs in the auction. On some inerties for certain seasons, there is no opportunity to obtain any inertie CRRs in the auction.

Therefore, Powerex believes that the only reasonable option to guarantee a significant amount of inertie CRRs being awarded in the auction is to have the ISO set aside 100% of the inertie capacity for the auction. Powerex's proposal should provide all market participants the opportunity to bid on inertie CRRs similar to the ISO's historical practice in the FTR auctions.