# 2012 Congestion Revenue Rights Tariff Clarifications

# Revised Draft Proposal

**May 18, 2012**

# 2012 CRR Tariff Clarifications

## *Table of Contents*

# 1 Introduction

For 2012 the ISO is not proposing any changes to the Congestion Revenue Rights (CRR) allocation and auction processes. Instead the ISO will only be discussing some proposed tariff clarifications, as listed below.

# 2 Plan for Stakeholder Engagement

| Item | Date |
|---|---|
| Post Draft Proposal | April 25, 2012 |
| Stakeholder Conference Call | May 2, 2012 |
| Stakeholder Comments Due | May 9, 2012 |
| Post Revised Draft Proposal | May 18, 2012 |
| Stakeholder Conference Call on Revised Draft Proposal | May 23, 2012 |
| Stakeholder Comments Due | May 25, 2012 |
| Post Draft Final Proposal | June 1, 2012 |
| Review Tariff Language | June 20, 2012 (tentative date) |
| Board Meeting | July 12, 2012 |
| FERC Filing | July 16, 2012 |

# 3 Proposed 2012 CRR Tariff Clarifications

## 3.1 Priority Nomination Process

In the Priority Nomination Process (PNP) of the annual allocation there is a limitation set on the number of CRRs that an LSE can nominate. Since only those CRRs awarded in the PNP are able to be nominated in the subsequent long-term allocation tier any limitations made in the PNP will have an impact on the long-term allocation process also. As a result of the stakeholder discussion in 2011,[1] the ISO modified the language in tariff section 36.8.3.5.1 so as to not be overly restrictive in how LSEs nominate in the PNP. Under the existing language at that time both criteria one and two were reduced by the quantity of all previously allocated long term CRRs. However, the intent was to only have one of the criteria adjusted. The modification that was made to this section in 2011 was applied to criteria number one as noted below. To provide the intended change the new language should have been added to criteria number two,

[1] The Draft Final Proposal paper with more details on this topic can be found at: http://www.caiso.com/Documents/RevisedDraftFinalProposal-CongestionRevenueRights2011Enhancements.pdf

which is reflected in the third paragraph below. The first paragraph shows the tariff language before any changes, the second paragraph shows the change that was made in 2011 and the third paragraph reflects the proposed tariff change for 2012 that will be applied to the 2013 annual PNP.

In this same tariff section the last sentence describes an adjustment that is made for load migration. This reference applies to both of the criteria listed in this section, the SEQ and the sink upper bound. However, the phrasing can be clarified by adding the same reference to the adjustment that is made for load migration to the end of both criteria. The ISO proposes to modify the tariff language further as reflected in the third paragraph below.

Based on comments received from several stakeholders on the conference calls as well as in writing it is apparent that the proposed language related to adjustments for load migration is still not clear. Based on these comments the ISO is proposing some additional refinements to the tariff language to describe this process more precisely. At a high level there are two adjustments being made that stakeholders initially thought were duplicate adjustments. After the discussions it seemed that most participants understood the distinction between the two adjustments but that the tariff language was not clear in describing how these adjustments were to be made. To summarize; the first adjustment made is to adjust each LSE's Seasonal CRR Load Metric to have this value reflect load migration that has taken place after the historical load values were measured. So, if the historical reference period for an annual allocation process is 2011 and an LSE had load migration take place after March 31, 2011 then the historical load data submitted for the period January 1, 2011 through March 31, 2011 does not reflect the load migration that took place after that time period and needs to be adjusted. The second adjustment made for load migration has nothing to do with adjusting the SEQ value calculated on the submitted historical load but rather has to do with reflecting the LSE's CRR portfolio associated with long-term CRRs that are valid for the time period for which the annual allocation is being performed. Therefore, if for example, the ISO is performing the 2013 annual allocation and calculates an LSE's base SEQ for season 1 on peak as 75MW then this SEQ is the total amount of CRRs that this LSE will be able to request through the annual allocation for 2013. If this LSE was previously awarded LT CRRs that are valid for the 2013 season 1 on peak period then it already has CRRs to cover the load for that period and does not need to request CRRs for that load. Similarly, if an LSE received long-term CRRs through the load migration process that are also valid for the 2013 season 1 on peak period then it also already has CRRs to cover the load for that period and does not need to request CRRs for that load. In order to make this process clearer, stakeholders proposed some additional clarifications to be made as noted below.

### 1) <u>Tariff Language before 2011 Changes:</u>

*In all annual CRR Allocations after CRR Year One, an LSE or a Qualified OBAALSE may make PNP nominations up to the lesser of: (1) two-thirds of its Seasonal CRR Eligible Quantity, minus the quantity of* ***<u>previously allocated Long Term CRRs</u>*** *for each season, time of use period and CRR Sink for that year; or, (2) the total quantity of Seasonal CRRs allocated to that LSE in the previous annual CRR Allocation, minus the quantity of previously allocated Long Term CRRs for each season, time of use period and CRR Sink, and minus any reduction for net loss of Load or plus any increase for net gain of Load through retail Load Migration as described in Section 36.8.5.1.*

### 2) <u>Tariff Language after 2011 Changes:</u>

*In all annual CRR Allocations after CRR Year One, an LSE or a Qualified OBAALSE may make PNP nominations up to the lesser of: (1) two-thirds of its Seasonal CRR Eligible Quantity, minus the quantity of*

*Long Term CRRs **allocated in the immediately preceding Seasonal CRR Allocation** for each season, time of use period and CRR Sink for that year; or, (2) the total quantity of Seasonal CRRs allocated to that LSE in the previous annual CRR Allocation, minus the quantity of previously allocated Long Term CRRs for each season, time of use period and CRR Sink, and minus any reduction for net loss of Load or plus any increase for net gain of Load through retail Load Migration as described in Section 36.8.5.1.*

## 3) Proposed Modified Section 36.8.3.5.1 Tariff Language after 2012 Changes:

*In all annual CRR Allocations after CRR Year One, an LSE or a Qualified OBAALSE may make PNP nominations up to the lesser of: (1) ~~two-thirds of~~ its Seasonal CRR Eligible Quantity **multiplied by two-thirds**, minus the quantity of Long Term CRRs ~~**allocated in the immediately preceding Seasonal CRR Allocation**~~ for each season, time of use period and CRR Sink for that year **and minus the net MW amount of load migration CRRs valid for each season, time of use period and CRR sink** ~~**any reduction for net loss of Load or plus any increase for net gain of Load through retail Load Migration as described in Section 36.8.5.1**~~; or, (2) the total quantity of Seasonal CRRs allocated to that LSE in the previous annual CRR Allocation, minus the quantity of ~~previously allocated~~ Long Term CRRs **allocated in the immediately preceding Seasonal CRR Allocation** for each season, time of use period and CRR Sink, and minus **the net MW amount of load migration CRRs valid for each season, time of use period and CRR sink** ~~any reduction for net loss of Load or plus any increase for net gain of Load through retail Load Migration as described in Section 36.8.5.1~~.*

There is also a sentence in this same section that SCE commented on that was not necessary with the other tariff clarifications being made so the ISO is proposing to also remove the sentence below from tariff section 36.8.3.5.1. The sentence being removed basically reiterates the limitation noted above in regards to two-thirds of the SEQ, which is the same as "fifty percent of its Adjusted Load Metric".

*~~The maximum quantity of CRRs that an LSE or a Qualified OBAALSE may nominate in the PNP is fifty (50) percent of its Adjusted Load Metric, minus any previously allocated Long Term CRRs that are valid for the term of the CRRs being nominated.~~ The CAISO does not guarantee that all CRR nominations in the PNP will be allocated. The CAISO will conduct an SFT to determine whether all CRR nominations in the PNP are simultaneously feasible. If the SFT determines that all priority nominations are not simultaneously feasible, the CAISO will reduce the allocated CRRs until simultaneous feasibility is achieved.*

## 4) Proposed Modified Section 36.8.2.1 Tariff Language:

*An LSE's Seasonal CRR Load Metric for each season and time of use period is the MW level of Load that is exceeded only in 0.5% of the hours based on the LSE's historical Load data. In the event that the LSE has lost or gained net Load through Load Migration during the course of the prior year, the ~~historical Load data~~ **Seasonal CRR Load Metric** will be adjusted to reflect the loss or gain in accordance with the applicable BPM. The CAISO calculates an LSE's Seasonal CRR Eligible Quantity by first ~~subtracting from~~ **adjusting** that LSE's Seasonal CRR Load Metric **based on load migration and subtracting** the quantity of Load served by its TORs, ETCs, and Converted Rights to form the LSE's Adjusted Load Metric, and then multiplying the result by 0.75.*

To provide an understanding of what the change will entail the ISO has made available to LSEs a sample of the 2012 calculation with the existing tariff language, as provided to participants last year, and the updated values using the proposed modified tariff language. In most cases the total number of CRRs that can be requested will increase with this new methodology.

## 3.2 Seasonal Eligible Quantity for Remaining Annual Tiers

For the remaining tiers two and three of the annual allocation process some participants had requested that the ISO revisit how the Seasonal Eligible Quantity (SEQ) is calculated to ensure that the intent is consistent with how the SEQ is being calculated for the PNP and long term tiers. In the long term tier the starting point is driven off of the adjusted load metric (ALM), which is still consistent with the original intent of limiting LT CRRs to 50% of the ALM. For the subsequent tier 2 and tier 3 of the annual allocation the SEQ is reduced by long term CRRs previously allocated that are valid for the CRR term currently being allocated. The use of this language is consistent with the intent of the annual allocation process which is to limit LSEs to acquiring CRRs valid for any annual period to not exceed 75% of the LSE's SEQ. If the SEQ were not reduced for long term CRRs previously acquired through any long term allocation process then it would be possible for an LSE to hold annual term CRRs in excess of 75% of the SEQ. Since this was not the intent, the existing language in sections 36.8.3.5.3 and 36.8.3.5.4 will remain as it is.

Although participants were fine with not adjusting the SEQ calculation for tiers two and three of the annual allocation, there were comments received about making similar clarifications to the tariff language describing how the tier two and tier three SEQs are adjusted for load migration. Based on those comments the ISO is proposing to modify sections 36.8.3.5.3 (annual tier 2 SEQ) and 36.8.3.5.4 (annual tier 3 SEQ) as reflected below.

### 1) Proposed Modification to Tariff Section 36.8.3.5.3

*In tier 2 of the annual CRR Allocation, the CAISO will allocate Seasonal CRRs to each LSE and Qualified OBAALSE up to two-thirds of its Seasonal CRR Eligible Quantity for each season, time of use period and CRR Sink, minus the quantity of: (i) CRRs allocated to that LSE or Qualified OBAALSE in tier 1, **~~and~~**(ii) Long Term CRRs previously allocated to it that are valid for the CRR term currently being allocated, **and (iii) the net MW amount of long-term Load Migration CRRs assigned to the LSE that are valid for the term currently being allocated.***

### 2) Proposed Modification to Tariff Section 36.8.3.5.4

*In tier 3 of the annual CRR Allocation, the CAISO will allocate Seasonal CRRs to each LSE or Qualified OBAALSE up to one hundred percent (100%) of its Seasonal CRR Eligible Quantity for each season, time of use period and CRR Sink, minus the quantity of: (i) CRRs allocated to that LSE or Qualified OBAALSE in tiers 1 and 2, **~~and~~** (ii) Long Term CRRs previously allocated to that eligible entity that are valid for the CRR term currently being allocated, and **(iii) the net MW amount of long-term Load Migration CRRs assigned to the LSE that are valid for the term currently being allocated**.*

## 3.3 Secondary Registration System Trade Notification

In section 36.7.3 of the ISO tariff it is stated that:

*Both the transferor and the transferee of the CRRs must register the transfer of the CRR with the CAISO using the Secondary Registration System at least five (5) Business Days prior to the effective date of transfer of revenues associated with a CRR.*

This language was initially put into the Tariff to provide the ISO with sufficient time to evaluate the credit-worthiness of the buyer and seller in any SRS transaction. With the current capability of the CRR system this credit-worthiness check is now able to be performed much quicker so the five business day requirement is no longer necessary. The ISO proposes to modify the language to read:

*Both the transferor and the transferee of the CRRs must register the transfer of the CRR with the CAISO using the Secondary Registration System* ***~~at least~~*** *five (5) Business Days prior to the effective date of transfer of revenues associated with a CRR,* ***or with sufficient time necessary for the CAISO to evaluate the credit-worthiness of the transferor and transferee, whichever is shorter****.*

The only change made to this section is to remove the phrase "at least", since this is redundant with the phrase "whichever is shorter". No comments were received that disagreed with the change in this language.

## 3.4 CRR PNode Retirement Process

During the 2011 CRR enhancement the ISO had modified the PNode retirement process to move from mapping to the closest electrically connected PNode, to mapping to the closest electrically connected biddable PNode. Based on this change any subsequent CRR retirements were mapped to the closest electrically connected biddable PNode. All prior CRR retirements were left as originally mapped, whether the closest electrically connected PNode was biddable or not. A CRR market participant has requested that the ISO make this change effective retroactively.

From the comments received all participants were agreeable to making this change but there was one aspect to this change that was not clearly stated that needs to be mentioned. The proposal was to re-map all retirements such that all retired PNodes are mapped to the closest electrically connected biddable PNode but it was not the intent to retroactively re-settle any CRRs. This change would only take effect on a prospective basis.

## 3.5 Credit Requirements for Load Migration Transfers

In tariff section 36.8.5.4 it describes the credit process that will be followed should an LSE that acquires CRRs through the load migration process not meet the incremental credit requirements associated with the load migration CRRs, flow or counter-flow. Since the credit process already accesses changes in credit requirements on a daily basis any changes would be picked up through this process already. In addition, the changes that have been seen in credit requirements, associated with load migration have historically been very small and have not had any significant impact on an LSE's credit requirement and to date the ISO has not had any need to use this section. The process described in section 36.8.5.4 is a manual process that is time intensive without any significant benefit. Therefore, the ISO proposes to modify this section to remove this manual settlement process as follows:

> *To the extent that the credit requirements of an LSE as specified in Section 12 are updated by the allocation of new CRRs to reflect Load Migration, the* ***LSE will have its respective credit requirements updated and any changes will be processed through the standard credit and collateral processes****.. ~~CAISO will do the following. For new CRRs that result in net charges to the affected LSE over a Settlement period these charges will appear on the LSE's Settlement Statement irrespective whether the LSE has met the updated credit requirement. For new CRRs that result in net payments to the affected LSE over a Settlement period and that LSE has not met the updated credit requirements affected by the allocation of new CRRs to reflect Load Migration, the CAISO shall withhold payment until those updated credit requirements are met. At the end of each Settlement period, if the LSE has not met the updated credit requirements resulting from Load Migration CRR transfers, the CAISO will add any net payments that accrued to the transferred CRRs to the CRR Balancing Account to be included in the daily clearing of the CRR Balancing Account, and those net payments will no longer be recoverable by the LSE. The CAISO may place new allocated CRRs into CRR Auctions if the non-compliance with credit or applicable Financial~~*

*~~Security requirements is persistent.~~ In the event that the Load gaining LSE is not a CRR Holder or Candidate CRR Holder at the time the Load Migration process takes place, then the Load Migration CRRs will not be transferred to that load gaining LSE and will not be financially settled. Instead, the unclaimed Load Migration CRRs will be absorbed within the CRR Balancing Account for the duration of the term of the Load Migration CRRs. In addition, the LSEs affected by the Load Migration will not be eligible to nominate the transferred CRRs in subsequent Priority Nomination Tiers.*

No parties disagreed with this proposed change in their submitted comments as it references the credit requirements for Load Migration transfers. However, PG&E requested that an additional sentence be removed from the above tariff section. After reviewing PG&E's comments the ISO agrees with this change and is proposing to remove the above sentence related to the CAISO placing CRRs into CRR auctions.

## 3.6 Merchant Transmission Process

In tariff section 36.11.3.2.3 there are a couple of references to "multi-period SFT", but the SFT being run in the CRR system is not a multi-period SFT. The term "multi-period SFT" refers to a feature that allows the SFT to consider multiple FNM variations and was considered at MRTU start-up but the implementation was deferred and is not in the current CRR system. This feature will be discussed in future CRR enhancement stakeholder discussions. These two references will be removed such that the references will only refer to the running of a "SFT". This section also refers to "evaluating two sets of grid conditions", but the process that was ultimately implemented in the software only does a single SFT that incorporates all CRR types that were previously awarded. Therefore, there is no need to perform a second SFT that "models only Transmission Ownership Rights". This reference will be removed from the existing tariff language. In addition, there is a third modification that needs to be made to this section. With the implementation of the Weighted Least Squares (WLS) optimization formulation the CRR software no longer optimizes the allocation markets by "maximizing" awarded MWs. The allocation now uses the WLS optimization which shares capacity on binding constraints based on the square of the shift factors of the relevant nominations that affect the binding constraint. Therefore, where it is stated in tariff section 36.11.3.2.3 that the SFT run for the Merchant Transmission CRR nominations "will solve to maximize the MWs of Merchant Transmission CRRs to be allocated" we need to modify this language to reflect the implementation of the WLS optimization. The proposed modified tariff language to address these three areas is noted below:

*The CAISO will conduct separate SFTs for each time of use period, **and season, as needed**. For each time of use period **and season, as needed**, the CAISO will perform a ~~multi-period~~ SFT ~~that simultaneously evaluates two sets of grid conditions~~. The ~~first set of grid conditions~~ **SFT** includes all existing Encumbrances for the month covered by the most recently conducted CRR Allocation and CRR Auction processes for Monthly CRRs including any temporary test CRRs from step one and any counterflow CRRs from step two. ~~The second set of grid conditions models only Transmission Ownership Rights.~~ Each SFT will consider the entire set of Merchant Transmission CRR nominations for the time of use period and will solve to **award** ~~maximize the MWs of~~ Merchant Transmission CRRs ~~to be allocated~~ to the Project Sponsor of the Merchant Transmission Facility, subject to simultaneous feasibility. The nominated Merchant Transmission CRRs that are feasible in the ~~multi-period~~ SFTs for each time of use period will be allocated to the Project Sponsor of the Merchant Transmission Facility.*

No comments were received on the submitted changes to this tariff section but PG&E did request that the ISO provide further "clarification and general education" regarding the Merchant Transmission process, which the ISO will work on putting together. There was a comment made by PG&E on the conference call and in the written comments that suggested adding language to account for possible seasonal variation in the additional capacity associated with the Merchant Transmission project. The ISO believes this is good clarifying language to add and has added it to the tariff section above.

# 4 Next Steps

The ISO will discuss the revised proposed tariff changes on the weekly CRR conference call to be held on May 23, 2012. The ISO is seeking comments on the revised proposed tariff changes. Stakeholders should submit written comments by May 25, 2012 to crrdata@caiso.com , please include the phrase "Tariff Changes" in the subject line.