

**Stakeholder Comments on:
Near-term Enhancements to Congestion revenue Rights (CRR)**

Submitted by	Company	Submitted Date
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Southern California Edison "SCE" appreciates the opportunity to provide comments on the CAISO issue paper entitled, "Near-term Enhancements to Congestion revenue Rights (CCR)", dated August 14, 2009. SCE appreciates the CAISO's continued efforts to improve the existing CRR market design. In particular, SCE continues to support the CAISO's commitment to the monitoring and reevaluation its credit policy for participation in the CRR market. SCE views this commitment as a critical component of the evolution of the CAISO CRR markets moving forward. SCE looks forward top working with CAISO staff on the initiatives included in then issue paper as well as new design enhancements in the future.

Credit Policy Changes

SCE supports the CAISO's effort to continuously improve its CRR credit policy. Based on the examples in the issue paper and the discussion on the August 21st conference call SCE has no issues at this time with the two changes being proposed. By calculating the bid segment credit exposure and the credit margin credit exposure components using the same MW quantity, the first change appears to reduce the amount of excess collateral CRR holders need for participation in the CRR auction while at the same time requiring sufficient collateral to cover the bid segment with the greatest exposure. SCE views the second change of using the auction revenues from negatively valued CRR as collateral an improvement over the current circular money exchange between the CAISO and the purchaser of a negatively valued CRR. SCE also notes that the CAISO proposal does not change the requirement for CRR holders to post sufficient collateral to cover the credit margin component of each CRR.

To further understand the CAISO proposed changes SCE requests the CAISO provide additional information on the settlement implication of using the negatively valued auction revenues as collateral. CAISO staff mentioned on the conference call that the money withheld would be placed in a special account and then be tied to the collateral requirements of the CRR holder. It is unclear of the structure of this account and how it will be linked to a CRR holders overall

collateral position. In addition, it is unclear on the process for which the CAISO will distribute the withheld revenue to the CRR holder once the CRR reaches maturity or as the credit holding requirement of the CRR is reduced over time. Specific charge code impact should also be identified in the straw proposal so CRR holders can determine impacts to shadow settlement systems.

Process for Liquidating the CRR's of Defaulting CRR Holders

SCE supports the CAISO formalizing the process for handling CRR's that it acquires from a defaulting CRR holder. However, we are unable at this time to make a determination on whether the best course of action is for the CAISO to sell the CRR it has acquired or simply hold the defaulting CRR's to maturity. In particular, the CAISO proposal to sell CRR's it acquires leaves open the question of how the CAISO would determine the minimum and maximum (in cases of negative CRR's) sale price the CAISO would accept. SCE does not support a CAISO proposal that would sell defaulting CRR's at any price and believes any proposal needs to include a defined methodology for determining a realistic resale value for defaulting CRR's. Until such a time that a pricing methodology is finalized it is hard to weigh the costs to the market of selling these CRR's versus the risks to the market for the CAISO holding them to maturity. The approach included in the issue paper for determining a sale price for these CRR's received mixed feedback from stakeholders, so it is unclear whether the CAISO will modify its methodology going forward. One option the CAISO may want to consider is rerunning the most recent CRR auction offline to get a revised auction price if any network topology changes have occurred that are determined to have a direct relationship with the defaulting CRR portfolio.

Revised Load Migration Process

SCE opposes the CAISO's proposal to shift the responsibility of determining the CRR load migration quantity for LSE's from the CAISO to the UDC's. The current roles and responsibilities, as well as the process for determining load migration, were the result of significant discussions between CAISO staff and stakeholders and any potential revisions should be adequately discussed, particularly among UDC's whose systems and processes could be impacted by the CAISO's proposed changes. The CAISO's proposal would have UDCs calculate the net load migration between each pair of LSEs and report it to the CAISO. Currently UDCs provide the CAISO load migration data and the CAISO determines the net load migration. Sufficient justification has not been provided as to why the CAISO should not continue to have this responsibility. UDCs should provide load migration data and should not be put in a position of being subject to disputes associated with CAISO's executing its responsibilities under the CAISO

Tariff. Should the CAISO desire to consider improvements to the current load migration reporting process for CRRs, it should conduct a more thorough discussion with stakeholders.

Elimination of Multi-Point CRR's

As a standalone initiative SCE would support the CAISO eliminating this functionality given the limited use by LSE's to date. However, SCE has concerns with the CAISO eliminating the current multi-point functionality if the CAISO also intends to reduce the number of allocation rounds for the monthly CRR process to one. The ability for LSE's to conditionally request allocated CRR's is a key element of the current CRR market design and should not be eliminated. Removing both the multi-point CRR feature and reducing the monthly allocation process to one round would eliminate the ability for LSE's to maximize the benefits to its customers from participating in the monthly CRR process.

Single Tier Monthly CRR Allocation

As a standalone initiative SCE would like additional time to review and discuss this initiative internally before the development of a final position. As previously stated above we remained concerned that a simultaneous elimination of the multi-point CRR feature will impact LSE's ability to maximize the benefits to its customers from participating the monthly CRR process.

Sale of CRR's in the CRR Auction

In concept SCE supports the CAISO desire to implement a sell feature within the CRR auction software that would facilitate the direct sale of CRR's. Such a feature should reduce the overall collateral requirements to CRR holders, in that today both the seller, because he is forced to purchase the counter-flow, and the buyer of the primary contract are required to provide collateral to hold the CRR to maturity. Prior to finalizing our position on the CAISO proposal SCE requests the CAISO provide additional details on how the sell feature would be designed. In particular, SCE requests more detail on the following:

- What are the collateral requirements for a direct CRR sale?
- Will the CAISO allow direct sales of allocated and auction CRR's or just auctioned?
- If allocated CRR's are allowed to be directly sold through the auction processes how will the CAISO account for load migration and the potential collateral implications if the seller is no longer a market participant?