Stakeholder Comments on

CRR Issues

Submitted by (name and phone number):	Company or entity:	Date Submitted:
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The CAISO is requesting initial written comments on the various CRR-related issues discussed at the April 1, 2008 stakeholder meeting. This template is offered as an easy guide for entities to submit comments; however, any participant should feel free to submit comments in any format. Submitted comments will be posted on the CAISO website unless participants expressly ask that their comments not be posted.

The Issues Papers and presentations discussed at the April 1 CRR Stakeholder meeting are posted at: http://www.caiso.com/1b8c/1b8cdf25138a0.html

Stakeholder comments should be submitted by close of business on Tuesday, April 8, 2008 to: CRRComments@caiso.com

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The CAISO offers the following questions as a structure for stakeholder comments:

Introduction:

SCE appreciates the opportunity to submit comments regarding the CRR Year 2 Release Process, Transmission Maintenance issues, and Credit Policy Enhancements. SCE commends the CAISO on all their efforts in developing a workable solution to handle the CRR issues due to the delay of the MRTU project. Based on the CAISO's CRR proposals, SCE will respond to the CAISO's specific questions below assuming a Fall 2008 MRTU start-up. Moreover we note that in particular, the issues surrounding changes to credit rules are complex, and SCE is not prepared at this time to offer full solutions to every problem. We encourage the CAISO to maintain flexibility in the stakeholder process and ensure we spend enough time on these issues to both protect customers from defaults and not put unnecessary credit burdens on parties holding CRRs.

A. CRR Year 2 Release Process

1. Does your company or entity have comments or suggestions on the historical reference period for verifying Season 1 source nominations in the next annual CRR release process?

For Season 1 (Q1 2009), SCE recommends that the CAISO conducts its source verification utilizing the latest 2008 historical values for its showing. It is crucial the CAISO pick a historical period in order to prevent parties from "gaming" the showing by signing new contracts simply to maximize the value of their CRR allocation. Further, the original showing for Q2-4 relied on historical year 2006 based on an assumed market start at the beginning of 2008. Since the market has been delayed, the earliest Q1 CRR that will be in effect is 2009, thus it seems consistent with the intent of the tariff to have a 2008 showing for Q1 2009.

2. Does your company or entity have comments or suggestions on whether CRR Seasons 2 and 3 should be treated as "Year 1" or "Year 2" seasons?

SCE's recommendation and alternative below are based upon the assumption that MRTU implementation will be in the Fall of 2008. If implementation of MRTU is delayed into 2009 SCE requests that the CAISO allow for an additional round of stakeholder comments on this particular issue.

SCE recommends that the CAISO treat the CRRs issued for Q2 and Q3 as "Year 2" CRRs. That is, rather than "redo" the initial CRR allocation for Q2 and Q3, the CAISO should follow the methodology prescribed in the tariff and move to the PNP process for these CRRs. In doing this, participants would use their first two tiers of allocated CRRs for 2008 Q2 and Q3 as candidates for their PNP nominations for 2009 CRRs. The tariff already has a developed methodology for year 2 and our preference is to simply follow the tariff.

In the alternative, SCE's second preference is simply for each LSE to "carry over" the CRRs that they were already allocated for Q2 and Q3 2008 and use those same CRRs in 2009. There would be no need for a new showing or for the renomination PNP process. To address load growth between 2008 and 2009 the CAISO should simply increase (or decrease) the load metric used for the monthly allocation process. Moreover, this would ensure that the allocated long-term CRRs stay in-sync with the holding of each party. "Carry over" CRR's would apply only to the CRRs originally ***allocated*** for Q2 and Q3. The CAISO should perform a new auction for Q2/Q3 2009.

3. Does your company or entity have any comments about the treatment of LT-CRRs?

SCE supports the CAISO's proposal to allow parties to continue to hold their existing LT-CRRs, and as such the CRRs will remain valid for 9 more years with the rights of renewal to continue per the tariff. However, depending on how the CAISO treats the existing Q2 and Q3 CRRs, there may need to be special rules to ensure the short-term and long-term CRRs continue to "sync up". This would be a particular concern if the CAISO decides to have a new showing and allocation process for Q2/Q3 2009. Further, it may be prudent to only allocate 2009 Q1 LT-

CRRs as 9 year CRRs, with right of renewal per the tariff, in order to match the duration of current LT-CRRs of seasons 2-4.

B. CRR MW Granularity

4. Please indicate the MW granularity that your company or entity prefers for 2009 CRRs:

    a. 0.1 MW granularity
    b. 0.01 MW granularity [typo corrected by SCE]
    c. 0.001 MW granularity

    If possible, please explain the business reasons for your preference.

SCE recommends the CAISO increase the granularity to be "0.01 MW". SCE supports the "0.01 MW granularity" for purposes of recording and tracking CRR holdings by CRR Holders since it will provide adequate precisions for rounding small denomination CRRs. Moving to 0.001MW may increase substantially the amount of data required to track CRRs without provide any material benefits. Moreover, even if CRRs were originally allocated base on a "0.1MW" level, subsequent migration of CRRs can be handled under 0.01MW rules.

C. 30-Day Rule on Outage Scheduling

5. Does your company or entity have comments or concerns about changing the 30-Day Rule to allow exemptions within a 24-hour period?

Currently the ISO Outage BPM lists three criteria for when outages must be scheduled with the CAISO at least 30-days prior to the month in which they are planned to occur. The BPM also indicates that outages that are planned to be initiated and completed within a single calendar day are exempt from the 30-day requirement.

SCE supports the CAISO's white paper dated March 25, 2006 and the ISO presentation at the April 1, 2008 stakeholder meeting to modify this language from "one calendar day" to "outages of <u>24 hours or less duration"</u>.

SCE supports this language change because frequently transmission maintenance work is scheduled in off peak periods when there is less impact on grid reliability and on the ability to service load during peak hours. Many outages are scheduled late at night and run over night. Allowing for a 24-hour duration will ensure that the PTOs can perform maintenance in the most reliable fashion and with the least impact on serving load.

SCE appreciates the CAISO's efforts in considering and proposing this language modification at this time. It will also contribute toward ensuring MRTU readiness for the PTOs.

6. Does your company or entity have any further comments about exemptions to the 30-Day Rule?

SCE has two additional comments.

1. It is best that the CAISO perform the proposed shift factor analysis approach rather than the PTOs. The current draft BPMs indicated that the PTOs are to perform the shift factor analysis. SCE indicated at the stakeholder meeting that it is not appropriate for the PTOs to perform a shift factor analysis; the CAISO is in the best position to perform shift factor analysis for the following reasons:

- The PTO engineers perform power flow analysis; however, they are not performing shift factor analysis.

- The CAISO is in the best position to do this analysis because the CAISO will have information on transmission facilities across the CAISO. However, a PTO will only have limited information focused on its transmission system. When more than one line is out and when one line is not in a PTO's area, a "PTO only" approach will not capture possible interdependencies and impacts on the grid and thus any individual PTO will not be able to determine, in all cases, if a line outage is significant.

2. SCE also recommends that the CAISO pursue an economic methodology rather than the shift factor approach. SCE suggests that the CAISO pursue an approach using the results of the CRR auction. SCE recognizes that the CAISO's plan is to go forward with the shift factor approach and the CAISO will start studying the results after six months of MRTU Go-Live. SCE is available to support such an effort and looks forward to working with the CAISO on its effort. In the meantime, in the event the CAISO wishes to develop the alternative proxy economic methodology that SCE has outlined, SCE is available to work with the CAISO on developing a proxy approach.

D. Monthly CRR Eligibility for LSEs Without Verifiable Load Forecasts

7. Please indicate and explain any preference how the CAISO should determine monthly CRR eligibility for an LSE in the absence of load forecasts:

a) Use load data from the last five relevant months
b) Use load data from the immediate previous month
c) Use load data from the same month of the previous year
d) Other suggestions?

For an LSE that is eligible for monthly allocations, but is not able to provide an independent load forecast, SCE supports option a) “Use load data from the last five relevant months (e.g. for the metrics of April, average out the last five April’s metrics)” to determine monthly CRR eligibility because historical data will reflect more realistic behaviors of the monthly load metric. Further, SCE believes that the CAISO should implement option a) as a standard for all eligible entities to adhere to it in all monthly CRR allocation processes to ensure fair and equitable outcome.

E. **CRR Credit Policy Enhancements**

In general, SCE believes the approximately $80MM default in PJM highlights the need to have robust and dynamic credit requirements for CRR holders. While the CAISO seems to have much better rules than those that were in place in PJM, nevertheless the default in PJM highlights several potential weaknesses in the CAISO credit process. As discussed below, the CAISO needs to enhance rules to ensure that:

1) Auction participants can meet their original credit obligations immediately after the auction runs. Allowing parties to “buy” CRRs in the auction (or gain them in the allocation), only to have them immediately default because they cannot meet the credit requirements of their newly obtained holdings is unacceptable.

2) CRR collateral must be dynamically tracked, monitored and enhanced when certain pre-defined conditions arise. It is simply unacceptable to take an initial credit “snap shot” based on the original auction results, and then not continue to track and mark-to-market credit based on the actual performance of the CRRs. While the CAISO has authority to do this, they currently have no clear obligation to track CRR performance, and stakeholders have no clear guidance on what their future collateral requirements may turn out to be. Instead, the CAISO should develop a rule set that not only monitors the collateral backing each CRR, but also results in mandatory and clearly defined “credit calls” if the CRR begins to perform in a manner that could erode the collateral in place. In short, the CAISO must mark CRRs to market, require participants to post additional collateral when necessary, and must develop clear rules that both the CAISO and stakeholders understand and abide by.

3) The CAISO must address collateral issues every time a CRR is transferred between parties. Any transfer should be contingent on reevaluating the credit associated with the CRR (and the receiving participant) and should be contingent on the receiving party first posting such collateral. If the receiving party cannot meet the collateral requirements, they should not be allowed to hold the CRR. These rules should be mandatory for every trade/transfer and clearly codified in the tariff.

4) The CAISO must address the issue in which an LSE is allocated a CRR in the allocation process, and then sells that CRR (or buys its counter-flow) in the auction process. In general, SCE continues to believe that once an LSE is allocated a CRR they must maintain sufficient credit to support that CRR for its full duration.

SCE notes that these issues are complicated and likewise a full set of durable solutions will be complex. Of importance, unlike most other commodities or financial contracts, CRRs do not have a robust "forward curve", and this creates problems in valuing CRRs, particularly for CRRs that take delivery a considerable time out in the future. Thus marking CRRs to market will require the CAISO to innovate. Nevertheless, the CAISO must protect customers from CRR defaults, and they should strive to implement rules that do this while minimizing, the greatest extent practicable, the financial burden placed on CRR participants. As a result, SCE offers only preliminary comments at this time. While each of the issues noted above must be fully addressed, we believe developing good solutions will benefit from additional stakeholder discussion. We encourage the CAISO to allow for a robust process so that stakeholders and the CAISO can develop durable and effective rules.

8. What is your entity's view on the proposed options to mitigate the credit risk of CRR transfers associated with load migration as discussed in the CRR Credit Issue Paper?

SCE supports the ISO's review of the credit requirements for the CRR market. SCE agrees with the ISO that additional credit requirements are needed to mitigate the credit risk of load migration. In general it is SCE's position an LSE allocated a CRR must be able to fully support the credit of that CRR for the full duration of the contract.

SCE supports the ISO's option 1 to disallow netting between allocated CRR's and auctioned CRR's in the credit requirement calculation. Option 1 is consistent, albeit in insufficient without additional enhancements to current credit policies, that the LSE will support the credit of an allocated CRR for the full duration of the contract. However, we note that a party selling CRRs may have substantial "excess credit" in other parts of its portfolio. The CAISO should take this into consideration as part of their overall credit policy. As with many of these items, we believe this issue would benefit from additional stakeholder discussion to improve the proposed Option 1.

SCE also supports the ISO's option 2b to require LSE's selling allocated CRR's to maintain sufficient credit coverage to cover the counter-flow CRR's that offset the CRR's being sold, and again we note that this obligation must follow some form of mark-to-market, rather than simply relying on a snap-shot based on initial auction results. Without marking-to-market, SCE is concerned that entities can sell any or all of there allocated CRR's in the auction and then "walk away" from the ISO market without having sufficient credit to cover future counter flow as a result of load migration.

9. What is your entity's view regarding enhancing the credit requirement calculation for holding Short-Term CRRs?

SCE agrees that enhancements to the CRR credit policy are needed. SCE would like more time to discuss the issues internally and suggests that the CAISO credit department consider developing rules and processes to mark CRR contracts based upon actual congestion costs. SCE feels strongly that CAISO should perform regular credit checks on all CRR contracts using actual congestion values. SCE feels that CAISO should develop credit rules that require its staff, at regularly defined time periods (weekly, biweekly, or monthly), to reevaluate the CRR contracts and determine if additional credit is required, and to monitor remaining collateral of all CRR participants. The CAISO should require mandatory posting of additional collateral if existing collateral falls below some margin (e.g. if actual CRR performance has eroded 50% of the original collateral posting, the holder would immediately receive a collateral call and would have to post additional collateral). CAISO can use the actual to-date financial position of the CRR as a starting point to extrapolate the contracts new estimated value. Reevaluating the CRR will allow CAISO to compare the new estimated contract value to the contract holder's credit and determine if additional credit is required.

As mentioned above SCE would like to have trigger points defined by CAISO for credit margin calls among other actions. In addition SCE also feels that a reevaluation of a CRR contract's credit requirement should be mandatory whenever a CRR contract is transferred between two entities. The process for reevaluation should be similar to the process used to mark CRR contracts as discussed above.

10. Please comment on the CAISO's intent to re-file the full-term credit coverage for LT-CRRs with the proposed modified credit requirement calculation formula.

SCE supports the CASIO's proposal to file the new methodology. We agree that long-term CRRs require additional collateral posting. However, we believe the proposal would benefit from additional stakeholder discussion. There may be more effective, and less costly alternatives and we should explore to see if better options exist.

11. What is your entity's view on whether to enhance the bidding requirement for auction participation? Should the full Credit Margin, or a portion of the Credit Margin by included in the bidding requirements? If a portion of the Credit Margin is preferred, what is your entity's suggestion on the appropriate percentage?

SCE agrees with the CAISO that enhancements to the CRR credit policy are needed. We must prevent a party from "winning" in the auction, and then immediately defaulting because of the collateral call.

SCE would like more time to discuss the issues, both internally and with stakeholders, before formulating a final position on the inclusion of the full credit margin calculation. In our review of the PJM FTR default case, it became apparent that a major problem in PJM was that Excel LLC was able to be awarded FTR's in the auction even though it was not able meet the credit requirements to hold those FTR's through the contract duration. While CAISO's current bidding requirements are an improvement over PJM's, they still do not prevent this exact scenario from reoccurring in the CAISO's CRR market.

In addition to including the credit margin in the CRR bidding requirement calculation SCE would like CAISO to explore creating a $/MW-contract minimum credit requirement for each CRR. This would force participating to collateralize all CRR to some minimum level, even if they purchased the CRRs for something close to $0. Creating a $/MW-contract minimum has been proposed by the NYISO in its March 12th FERC filing and is currently at FERC awaiting a decision.

12. Please comment on the proposed Tariff clarification to increase credit requirements for CRRs due to extraordinary circumstances such as extended outage or other circumstances that could dramatically change the risk profile of a CRR.

As stated above in question 9, SCE feels that the CAISO should reevaluate all CRR contracts on a regular basis and determine if additional credit is required based on defined trigger points. It is critical for the CAISO to protect against a default by considering the actual performance of a CRR, rather than simply looking at a snap-shot at the time of the auction, and to reevaluate credit requirements of a given CRR contract throughout the duration of the contract. SCE does not feel that this reevaluation should be performed only under extraordinary circumstance per the current tariff, but rather, the CAISO's credit department should perform mark-to-market valuations on a regular basis. These rules for evaluation, as well as what will be required from participants if they have to post additional collateral, should be clearly stated in the tariff. Again, we believe that additional stakeholder process will help us develop durable and equitable rules.

13. Does your company or entity have comments on the concept for requiring corporate parent credit backing of affiliated market participants' Estimated Aggregated Liability? Is there merit in this potential change? Should this concept apply to other forms of collateral or just guarantees? Would this concept present regulatory difficulties for affected entities?

Per the discussions on the April 4th stakeholder meeting, SCE would like this issue to be placed on a separate track from the other immediate collateral issue. The proposal raises a host of legal, regulatory and technical questions that we believe will take a significant amount of time to address.

After we address and resolve the immediate collateral issues, SCE would like for the CAISO to provide additional information on its thoughts regarding parental guarantees. SCE does not have enough information at this time to comment on this issue, and because of the legal and regulatory nuances of the proposal, we simply cannot offer meaningful comments until we see a more detailed proposal.

In sum, SCE would like to see this particular item decoupled from the other credit enhancements, and we would like the CAISO to focus its efforts on enhancing the current credit regime. If we reach a successful outcome of the credit rule changes, there may no longer be a need to address parental guarantees.

F. Other CRR Issues

14. Does your company or entity have further comments or suggestions on these various CRR issues?

2009 Annual CRR Allocation and Auction Schedules:

Since Season 1 CRRs have never been allocated, SCE believes that the 2009 Annual CRR Allocation and Auction Schedules are incorrect. For Season 1 of 2009, the sequence of annual tiers should be in the order of: Tier 1, Tier 2, Long Term (LT), and Tier 3 (CRR Year One processes).

For seasons with Priority Nomination Process (PNP), the sequence should be in the order of: PNP, LT, Tier 2, and Tier 3 (Beyond CRR Year One processes). This should also apply for Season 4 and Seasons 2 & 3, if for these seasons, CRR Year Two will be applied.

Lastly, the monthly processes for October and November should be incorporated in order to have a full scope of annual and monthly CRR efforts.

We appreciate the opportunity to provide these comments.