

To: CRR 2 Study Group
From: Mike Brozo, TANC
Subject: CAISO CRR 2 Study Comments

March 1, 2004

Summarized below are comments regarding the CAISO CRR Study 2 outline. The comments are based on the study outline distributed by the CAISO in February 2004.

CRR Study Objectives

The CAISO states on page 2 that the objective of the study is to estimate the extent to which CRR's provide adequate hedging of congestion costs. While this is a reasonable objective, the CAISO should acknowledge and discuss the weakness in its approach to providing this information. The analysis will not be any more than a general estimate based on available, adjusted historic data. While informative, the study will not necessarily demonstrate "CRR effectiveness in hedging congestion costs."

Modeling Changes from CRR Study 1

The CAISO propose to use an open loop rather than an external equivalent. The CAISO should provide an assessment and sensitivity analysis of the impact of this modeling assumption on the CRR allocations and availability.

Converted Rights

The CRRs will be requested by PTOS for their ETCs. The ETCs' parties should be involved in determining what level of CRRs is identified for ETCs. The PTOs may under- or over-request CRRs or at least not be as aware of expected usage for certain ETC's as the ETC Holder.

Operating Constraints

The CAISO has proposed two topics to be addressed in the study related to constraints. The CAISO analysis should examine the impact or sensitivity of the study results to the CRR allocation. The CRR2 study discussion says that the CAISO will "investigate" the additional constraints and contingency analysis without indication of what the investigation will provide or result in. More detail discussion and explanation regarding the use of the investigation results and the outline of the "investigation" study or analysis is recommended.

PTOs that are Party to ETCs

The CRR study proposes that ETCs will be allocated obligation CRRs. The CRR2 study should provide a financial assessment of this different approach. Similarly, the method proposed by the CAISO to define the ETC CRRs as based on the lower of ETC rights or historical use threatens the provisions of the contract. For study purposes only, this may be prudent if the ETC holders are involved in defining the expected level of ETC usage.

The CAISO proposal to model ETCs at the nodal level should be modified or included as a sensitivity element consistent with the CAISO proposal to reevaluate this element of MD02.

2.7.3 The CAISO has proposed that LSE's with bilateral contracts should have the contract source points designated for the CRR2 study. This source designation process

should be fully discussed and reviewed by Market Participants to ensure a fair and reasonable process that does not result in “skewed” results.

2.7.4 The CAISO CRR2 study should include analysis of MSS pricing options to allow evaluation of the impacts on CRR hedging. In addition, the CAISO needs to coordinate discussion with MSS’s to assess the estimates of internal generation.

2.9.2 The CAISO CRR2 study proposes an objective function that will maximize total CRR allocation. The objective function should also maximize CRR allocation to individual LSEs to assess whether certain entities are not receiving a proportionate share of CRRs.

3.2.3 The transaction data will be critical in this study approach and, as discussed previously, only an indication of transactions and prices.

3.2.4 The study outline suggests that if an entity has CRR revenues exceed costs, then the CRR allocations will be scaled back. For study purposes only, this may be a worthwhile analysis to gauge if more CRRs are available for entities needing CRR to hedging their congestion exposure. The CAISO should also include in the study objectives estimates of CRR reallocations that can be done to meet CRR requests based on modified path or CRR requests. Additionally, CRR revenues estimated in this study are only estimates and should not be treated as a “preferred” method for allocating CRRs. A “gain” in one year could be a loss in another year, and therefore the CAISO should not regard this analysis and scaling as anything other than a study effort.