

Stakeholder Process: CRR Enhancements

Summary of Submitted Comments

Stakeholders submitted two rounds of written comments to the CAISO on the following dates:

- April 8, 2008 – “*Initial Stakeholder Comments on CRR Issues*” – 15 entities submitted comments
- *April 28, 2008 – “*Stakeholder Comments on CRR Straw Proposals*” -- 8 entities submitted comments

*This summary includes only the most recent written comments that were submitted April 28th.

Stakeholder comments are posted at: <http://www.caiso.com/1b8c/1b8cdf25138a0.html>

Other stakeholder efforts include:

- Stakeholder Meeting – April 1, 2008
- Stakeholder Conference Call -- April 21, 2008
- Stakeholder Conference Call -- May 12, 2008

Management Proposal	<u>A</u> California Public Utilities Commission Staff	<u>B</u> EPIC Merchant Energy	<u>C</u> Northern California Power Agency (NCPA)	<u>D</u> Pacific Gas & Electric Co. (PG&E)	Management Response
<p>A. CRR Year 2 Release Process</p> <p>1. Use Season 1 2007 as the historical reference period for verifying Season 1 source nominations in the next annual CRR release process.</p>	No Comment	No Comment	Does Not Oppose	<p>Does Not Oppose</p> <p>Using Season 1 2007 is an improvement over the default use of Season 1 2006, PG&E’s preferred alternative would be Season 1 2008.</p>	<p>The CAISO agrees it would be desirable to use a reference period that is as recent as possible. It must be noted however that market participants were informed by summer 2007 – well in advance of 2008 Quarter 1 – that there would be a need to perform source verification in conjunction with the release of CRRs for 2009 Quarter 1 and a need to specify an historical reference period for that purpose. The CAISO therefore believes that using 2008 Quarter 1 for source verification would not be immune to the possibility that parties have entered specific contractual arrangements with the anticipation of using such arrangements as the basis for source-verified 2009 Quarter 1 CRR allocation. Using Season 1 2007 avoids that possibility.</p>
<p>2. Treating CRR Seasons 2 and 3 as “Year 2” seasons that are eligible for the Priority Nomination Process in the next annual CRR release process.</p>	Support	No Comment	<p>Oppose</p> <p>CRR Seasons 2 and 3 should be treated as “Year One” seasons to realize the full benefits of increasing CRR MW granularity to the 0.001 MW level within the next annual CRR release process. Re-doing source verification for these Seasons may improve market participants’ ability to clear smaller CRR quantities at the Trading Hubs.</p>	Support	<p>The CAISO believes the burden of re-doing source verification for three quarters AND unwinding LT-CRRs that have already been allocated is greater than the overall benefits that might be realized. Moreover, parties knew the granularity of CRRs when they submitted nominations during the first annual allocation; this technical improvement is not reason by itself to re-do the results of the previous allocation.</p>
<p>3. Confirming that</p>	Support	No Comment	Oppose	Support	<p>The CAISO believes the burden of re-doing source verification for three quarters AND unwinding LT-</p>

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Season 4 CRRs will be eligible for the Priority Nomination Process in the next annual CRR release process..			Season 4 CRRs should be revisited to realize the full benefits of increasing CRR MW granularity to the 0.001 MW level within the next annual CRR release process.		CRRs that have already been allocated is greater than the overall benefits that might be realized. Moreover, parties knew the granularity of CRRs when they submitted nominations during the first annual allocation; this technical improvement is not reason by itself to re-do the results of the previous allocation.
4. Confirming that Q1 LT-CRRs should be treated under the “Year 1” nomination limit, and Q2-4 LT-CRRs should be treated under the “Year 2” nomination limit in the next annual CRR release process.	Support	No Comment	Oppose To the extent that previously awarded Seasonal CRRs are retracted and treated under the “Year One” rules in the next annual CRR release, then LT-CRRs previously released should be retracted and market participants should be able to convert a proportionate share of their newly acquired CRRs into LT-CRRs.	Support	The CAISO believes the burden of re-doing source verification for three quarters AND unwinding LT-CRRs that have already been allocated is greater than the overall benefits that might be realized. Moreover, parties knew the granularity of CRRs when they submitted nominations during the first annual allocation; this technical improvement is not reason by itself to re-do the results of the previous allocation.
B. CRR MW Granularity 5. Adopt the 0.0001 MW level (1kW) for the next annual CRR release.	No Comment	No Comment	Support This additional granularity should be implemented for CRRs that were previously allocated.	Support All aspects of the CRR process, including allocations, auctions, migration reassignments and transactions tracked through the secondary registration process should use consistent granularities.	The CAISO agrees to use the 0.001 MW level for the CRR allocation and auction.

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<p>C. 30-Day Rule on Outage Scheduling</p> <p>6. Modify the 30-Day Rule so that outages initiated and completed within a 24-hour period are exempt (instead of one day.)</p>	Support	No Comment	No Comment	Support	
<p>7. Eliminating the exemption criteria that are detailed in Section 10.3.1 of the BPM for CRRs until actual LMP market experience unfolds.</p>	No Comment	No Comment	No Comment	<p>Oppose</p> <p>CAISO should quickly develop and implement 30-day exemption criteria for those outages that are expected to have limited or acceptable impacts on congestion and CRR revenue adequacy, in coordination with the Transmission Maintenance Coordination Committee (TMCC).</p>	<p>The CAISO has committed to assessing the effectiveness of both the 30-day requirements and its approach to modeling outages in the Monthly CRR process as actual experience with the LMP markets is gained.</p>
<p>8. Developing an analytical methodology for assessing the impacts of outages on CRR revenue adequacy, and assessing with stakeholders whether revisions to</p>	No Comment	No Comment	No Comment	Support	

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<p>the 30-day rule exemption policy are appropriate.</p>					
<p>D. Monthly CRR Eligibility for LSEs Without Verifiable Load Forecasts</p> <p>9. In the absence of a verifiable load forecast, using the historical load of the same month from the previous five years.</p>	<p>No Comment</p>	<p>No Comment</p>	<p>No Comment</p>	<p>Support</p>	
<p>E. CRR Credit Enhancements</p> <p>10. a) Disallow netting between allocated CRRs and auctioned CRRs in the credit holding requirement calculation.</p>	<p>Support</p>	<p>No Comment</p>	<p>No Comment</p>	<p>Support</p>	
<p>10. b) Require LSEs selling allocated CRRs to maintain sufficient credit coverage to cover the counterflow CRRs that offset the CRRs</p>	<p>Strongly support</p> <p>CPUC staff previously suggested this enhancement to credit policy and believes this proposal will</p>	<p>No Comment</p>	<p>No Comment</p>	<p>Support</p>	

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being sold.	protect ratepayers from CRR income deficiencies.				
11. Including historical LMPs (a year after MRTU start-up) to improve the credit requirement for holding short-term CRRs.	Support	<p>Conditionally support.</p> <p>The CAISO is moving in the right direction by including Historical Expected Value in the formula. However, this approach should allow reducing the credit requirement where an entity is over collateralized.</p> <p>The CAISO should reconsider using simulation prices to compute the credit margin.</p> <p>Changes to the CRR credit holding requirement should only apply to CRR positions acquired after the changes are made effective.</p>	Support	<p>Support</p> <p>Recommend enhancement using the <u>most significant</u> of either the Historical Expected Value or the Auction Price results. CAISO should consider implementing this requirement as soon as possible using LMP Study results as a proxy for the historical expected value for the first year.</p>	
12. Adding a full credit margin to the bidding requirement for participation in CRR auctions.	No Comment	<p>Oppose</p> <p>Using the absolute value of the bid price may reduce the</p>	Support	Support	

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		required credit requirement for negative bids, even though the risk presented by the bid increases.			
<p>F. Other CRR Issues</p> <p>13. Further comments on CRR issues.</p>	No Comment	<p>Providing real life examples demonstrating how the CRR credit policy would work would be very beneficial.</p> <p>To be consistent, the holding requirement should be allowed to exceed the bidding requirement.</p>	No Comment	<p>The three CRR credit policy enhancements should be implemented prior to the start of the next CRR release process.</p> <p>The CAISO should quickly initiate further stakeholder processes on credit coverage for LT-CRRs, CRR credit requirements for Extraordinary Circumstances and Corporate Credit Backing of Affiliates and other credit issues.</p> <p>The CAISO should post the schedule for source verification within the next annual CRR release process.</p> <p>The CAISO should commit to a date for releasing the Full Network Model (FNM) prior to the start of the</p>	<p>The CAISO will continue to work with stakeholders on the implementation of the CRR credit policy enhancements.</p> <p>The CAISO included the schedule for the collection and verification of CRR source nominations in the “draft Final Proposal on CRR Enhancements.”</p> <p>The CAISO intends to release the Full Network Model four to six weeks prior to the beginning of the next allocation process. A specific date for this release will be posted as soon as possible.</p>

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				next CRR allocation.	

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Management Proposal	<u>E</u> Powerex Corp.	<u>F</u> Southern California Edison	<u>G</u> San Diego Gas & Electric Co.	<u>H</u> State Water Project (SWP)	Management Response
<p>A. CRR Year 2 Release Process</p> <p>1. Use Season 1 2007 as the historical reference period for verifying Season 1 source nominations in the next annual CRR release process.</p>	<p>No Comment</p>	<p>Does Not Oppose</p> <p>SCE prefers utilizing the most recent Q1 historical values from 2008.</p>	<p>Conditional</p> <p>The use of 2007 instead of 2006 as the source verification period does little to overcome the deficiencies in the allocation process. CAISO should move to implementation of a full CRR auction as soon as possible.</p> <p>Trading Hub weighting factors should be updated as well to reflect Q1 2007 data.</p>	<p>Support</p>	<p>Trading Hub weighting factors are updated concurrently with the CRR allocation process.</p>
<p>2. Treating CRR Seasons 2 and 3 as “Year 2” seasons that are eligible for the Priority Nomination Process in the next annual CRR release process.</p>	<p>No Comment</p>	<p>Support</p>	<p>Does not oppose.</p> <p>Trading Hub weighting factors should be updated as well to reflect 2007 data.</p>	<p>Opposes</p> <p>Source verification for Seasons 2 and 3 should be re-done to better match the likely energy flows and transactions in 2009 and to gain benefits from the increased MW granularity of CRRs.</p>	<p>The CAISO agrees it would be desirable to use a reference period that is as recent as possible. It must be noted however that market participants were informed by summer 2007 – well in advance of 2008 Quarter 1 – that there would be a need to perform source verification in conjunction with the release of CRRs for 2009 Quarter 1 and a need to specify an historical reference period for that purpose. The CAISO therefore believes that using 2008 Quarter 1 for source verification would not be immune to the possibility that parties have entered specific contractual arrangements with the anticipation of using such arrangements as the basis for source-verified 2009 Quarter 1 CRR allocation. Using Season 1 2007 avoids that possibility.</p>
<p>3. Confirming that Season 4 CRRs will be eligible for the Priority Nomination</p>	<p>No Comment</p>	<p>Support</p>	<p>Does not oppose.</p> <p>Trading Hub weighting factors should be updated as well to</p>	<p>Support</p>	

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Process in the next annual CRR release process..			reflect 2007 data. CAISO should include provisions for MRTU launch dates other than Oct. 1 in the Season 4 rules.		
4. Confirming that Q1 LT-CRRs should be treated under the “Year 1” nomination limit, and Q2-4 LT-CRRs should be treated under the “Year 2” nomination limit in the next annual CRR release process.	Support	Support	Does not oppose	Oppose	
B. CRR MW Granularity 5. Adopt the 0.0001 MW level (1kW) for the next annual CRR release.	Oppose Does not support the administrative burden associated with this proposal.	Does not oppose. SCE prefers the 0.001 MW granularity level.	Does not oppose The need to adopt to 0.001 MW level is an example of the complexity that could be avoided by utilizing a full auction or allocating Auction Revenue Rights as done in other LMP markets.	Support	
C. 30-Day Rule on Outage Scheduling 6. Modify the 30-Day Rule so that outages initiated and completed within a	Support	Support SCE seeks clarification whether this change will be incorporated	Does not oppose	Support	

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24-hour period are exempt (instead of one day.)		within the CRR BPM or the BPM on Outage Management.			
7. Eliminating the exemption criteria that are detailed in Section 10.3.1 of the BPM for CRRs until actual LMP market experience unfolds.	No Comment	No Comment	Does not oppose	No Comment	
8. Developing an analytical methodology for assessing the impacts of outages on CRR revenue adequacy, and assessing with stakeholders whether revisions to the 30-day rule exemption policy are appropriate.	Support	No Comment	Does not oppose	No Comment	
D. Monthly CRR Eligibility for LSEs Without Verifiable Load Forecasts 9. In the absence of a verifiable load forecast, using the historical load of the same month from the previous five years.	Support	No Comment	Does not oppose This rule should remain permanent.	No Comment	

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<p>E. CRR Credit Enhancements</p> <p>10. a) Disallow netting between allocated CRRs and auctioned CRRs in the credit holding requirement calculation.</p>	Support	Support	<p>Oppose</p> <p>Disallowing netting against allocated and auctioned CRRs does not follow prevalent practices in clearing arrangements utilized in financial markets and could increase overall credit costs.</p> <p>CAISO should focus on creating a clearing house where initial and bilateral acquired arrangements are cleared through a central platform.</p>	No Comment	
<p>10. b) Require LSEs selling allocated CRRs to maintain sufficient credit coverage to cover the counterflow CRRs that offset the CRRs being sold.</p>	Support	<p>Support</p> <p>SCE urges language that states the conditions of sale for each of the two parties involved in a transaction.</p>	<p>Oppose</p> <p>CAISO should facilitate the possibility to report transacted bilateral arrangements to a central clearing house.</p>	No Comment	
<p>11. Including historical LMPs (a year after MRTU start-up) to improve the credit requirement for holding short-term CRRs.</p>	Support	<p>Support</p> <p>CAISO should dynamically monitor and track a CRR holder's credit position.</p>	<p>Oppose</p> <p>CAISO should facilitate the possibility to report transacted bilateral arrangements to a central clearing house.</p>	No Comment	

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<p>12. Adding a full credit margin to the bidding requirement for participation in CRR auctions.</p>	Support	Support	Does not oppose	No Comment	
<p>F. Other CRR Issues</p> <p>13. Further comments on CRR issues.</p>	No Comment	<p>CRR credit enhancements are a Good first step, but enhanced credit rules must be in place prior to running the next CRR release process.</p> <p>SCE encourages the CAISO to further develop a CRR mark-to-market methodology.</p>	<p>SDG&E reiterates its support for an auction with allocation of the auction revenues to LSEs. The CAISO should initiate a process to migrate from the current allocation process to a full auction market.</p> <p>The CAISO should prohibit renewal of a CRR acquired through the source verification process once the original term of the underlying commercial arrangement expires.</p>	No Comment	