



CALIFORNIA ISO

California Independent
System Operator

CRR Allocations for Merchant Transmission Owners

Market Surveillance Committee Meeting

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Background

- **Central Issue: How to allocate CRRs to entities who build new or upgrade existing ISO grid facilities and do not recover their investment costs through a regulated mechanism such as access charges.**
- **It's generally agreed merchant transmission (MT) owners are entitled to receive an appropriate stream of congestion revenues when their transmission projects have been energized and operational control has been turned over to the ISO.**



Problem Statement

- Should a MT owner's entitlement be based on
 - the specifications of the project, e.g., its MW value and associated network nodes, or
 - impact of the project on ISO grid transmission capacity?
- Under the latter option, how should the project's impact be measured?
- Under either option, is allocation of CRRs the preferred mechanism for providing the entitlement?



Assumptions for MT

- These merchant transmission facilities also must be consistently modeled in the Full Network Model in subsequent CRR allocations or auctions in order to maintain revenue adequacy and equity in CRR allocations.



ISO Straw Proposal

(Originally released August 2004)

- MT owner's entitlement will be based on the impact of the project on ISO grid transmission capacity.
- The terms of the CRRs that are allocated to MT owners would be good for the life of the transmission facility.
- The MT owner would be required to accept counterflow CRRs to maintain the feasibility of previously awarded CRRs.
- The CRRs allocated to the MT owner should not become a revenue liability to the MT owner, except in the case where counterflow CRRs are necessary to maintain the feasibility of previously awarded CRRs.



Issues for Consideration

- How to map project impact on grid capacity to a specific bundle of CRRs the MT owner may request.
 - E.g., how many CRRs at which source/sink pairs.
- Whether the MT owner could voluntarily request additional counterflow CRR obligations so as to increase its allocation of nominated CRRs.



Issues for Consideration

(continued)

- Whether MT owners could be allocated CRR options, and whether CRR obligations could be allocated only as needed to preserve the feasibility of previously awarded CRRs.
- If the rating of the transmission capacity were reduced, what happens to CRRs that are good for the life of the transmission facility?



Requested MSC Action

- Request MSC consideration and opinion on the structure of CRR allocation rules for Merchant Transmission owners and the interplay of incentives for transmission expansion.