

**SWP Comments to the CAISO's CRR White Paper**  
**"Release of 2009 CRRs and the Start-Up of the MRTU Markets"**

**August 21, 2008**

On August 8, 2008 the CAISO's CRR Team released a draft white paper entitled "Release of 2009 CRRs and the Start-Up of the MRTU Markets" and requested comments by August 21, 2008. The California Department of Water Resources (DWR) appreciates the opportunity to provide comments on this white paper.

DWR is particularly concerned with the CAISO's proposal, as indicated in the white paper, to alter the sequence of the CRR Year Two allocation process and having done so without any reference to the CAISO Tariff rules. As you may know, DWR operates the State Water Project (SWP) to transport water to many parts of California. The SWP collectively represents one of the largest loads in California. Consequently, the allocation of Congestion Revenue Rights (CRRs) is very important to our financial operations and to the millions of Californians who receive and pay for water from the SWP. For this reason, DWR staff was actively involved in the CRR stakeholder process from the beginning that lead to development of CRR Tariff language found in Section 36 of the CAISO Tariff. We understand the CRR allocation process and are versed on the reasons behind the various provisions in the Tariff pertaining to CRRs. Therefore, DWR believes that implementing CAISO's proposed change would be in clear violation of Section 36.8.3.5 of the CAISO Tariff, which clearly defines that the sequence of tiers for Year Two shall be conducted as follows: Tier 1, Tier LT, Tier 2, and

then Tier 3. Additionally, the whitepaper states that the CAISO suggests maintaining the CRR allocation and auction under the current schedule and Tariff rules (except for adjusting the terms of CRRs in the first quarter to be effective on February 1, 2009); if this is true then the Tariff rules that define the sequence of tiers should be complied with, and the whitepaper's proposal on this matter should not be implemented.

During the August 14<sup>th</sup> and August 20<sup>th</sup> stakeholder conference calls, CAISO stated its desire to change the CRR Year Two allocation sequence to simplify the process and to help meet its CRR deadlines. CAISO also stated that there is no harm in changing the sequence and, in the CRR white paper, suggested that the order in which the tiers are run is not important. These assumptions are simply not correct. The fact is that the order in which the tiers are run is very important, was developed through considerable stakeholder input over several years, and was memorialized in the Tariff.

The reason behind running Tier LT immediately following Tier 1 in CRR Year Two (and beyond) is so Market Participants will know what they have received in Tier LT before they must formulate and submit nominations for Tier 2 and later Tier 3 of the annual process. In other words, the choices made in Tiers 2 and 3 will depend upon what Market Participants receive in Tier LT. This way, Load Serving Entities have two opportunities to secure annual CRRs to cover what they did not receive in Tier LT. This is an important principle. However, under

CAISO's new proposal, Market Participants would be limited to just one opportunity after Tier LT to secure the needed CRRs.

We appreciate CAISO's desire to maintain the CRR schedule, however, making changes to any aspect of the allocation process for convenience and in violation of the Tariff or contrary to the CRR Business Practice Manual (BPM) is not appropriate and will likely result in protests at FERC that could require a rerun of the allocation and auction process; something that could reveal bidding strategies developed for both the allocation and auction.

DWR is also concerned with the ramifications to the sequence of tiers for the years beyond Year One. If the CAISO successfully amends or waives, with FERC approval, the MRTU Tariff to reflect its proposed plan based on the premise that sequence is not important, then how would Tier LT be conducted for the following years? CAISO has not addressed how it plans to handle this issue, nor whether a future amendment to this year's potential amendment to alter or waive the Tariff will be required or if this plan only applies one-time. DWR requests that the CAISO present how it plans to handle this issue not just in the short-term but also in the long-term.

For the reasons stated above, DWR does not support the CAISO's proposal to change the sequence of tiers and, instead, recommends that CAISO maintain the current CRR Year Two process as defined in the Tariff and BPM. DWR suggests

as a potential solution to this concern (and the Load Migration issue) that the CAISO reconsider treating the 2009 CRRs as Year One.

During the August 20<sup>th</sup> CRR conference call, the CAISO's CRR Team acknowledged that the Load Migration issues may be not resolved in time (by the end of this week) and, in this case, is proposing for the sole purpose of maintaining the current CRR schedule that the FNM should be finalized without considering Load Migration. Being that this, too, is noncompliant with the MRTU Tariff; the CAISO proposes to **waive** the MRTU Tariff at least for the 2009 Annual Allocation process. Although not directly impacted by Load Migration, DWR understands that this would certainly impact the FNM; therefore DWR opposes the CAISO's proposal to waive the MRTU Tariff language in order to exclude Load Migration from the 2009 FNM.

During the same conference call, CAISO was asked why the MRTU start-up could not be delayed beyond February 1st, 2009. It was also pointed out that, unlike with the CRR issues, the CAISO has in fact been able to justify delaying MRTU with respect to MRTU Implementation issues related to Parameter Tuning, Operations, Simulations, and others. CAISO's response was that although the CAISO Board of Directors has not yet confirmed February 1st, the current CRR schedule should continue as planned. DWR, however, does not believe that maintaining the current schedule should supersede compliance with the Tariff.

While the CAISO focus of MRTU start-up is now on readiness of the Integrated Forward Market, the careful and proper allocation of CRRs (some of which will have a ten year life) is very important and should not be sacrificed in order to achieve an MRTU start-up deadline that could and may, yet again, be deferred.

In light of the facts that the CAISO has not yet “locked down” the full network model, due to the lack of necessary data for the load migration calculations, and the fact that the CAISO has not yet come out with a new, official “Go-Live” date, DWR strongly recommends that the CAISO delay the opening of the CRR nomination process until the CRR issues described above are resolved satisfactorily with the stakeholders.

Please contact me at (916) 574-0658 if you have questions.

Sincerely,

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