

CCSF Comments on CAISO CRR Auction Efficiency

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Track 1B Straw Proposal

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The City and County of San Francisco (CCSF) thanks the CAISO for considering the following comments on its April 19, 2018 Congestion Revenue Rights Auction Efficiency Track 1B Straw Proposal (“Straw Proposal”). CCSF owns and operates both a municipal electric utility and the CleanPowerSF community choice aggregation (CCA) program.

The Straw Proposal purports to i. address high payouts due to unforeseen outages and short duration outages, ii. reduce low-priced high payout congestion revenue rights due to model differences because they would no longer be profitable, and iii. equitably allocate shortfalls due to ultimately unavailable transmission. CCSF does not support the CAISO’s Straw Proposal because i. it fails to address the underlying auction efficiency problem and instead addresses a revenue inadequacy problem, ii. it does not equitably allocate the revenue inadequacy to CRR holders, iii. CAISO has not demonstrated the impact of the Straw proposal on Market Participants, and iv. CAISO has not adequately considered alternative solutions for addressing the CRR auction efficiency problem.

CAISO acknowledges that day-ahead market congestion revenue shortfalls are different than auction revenue shortfalls.¹ Instead of addressing the underlying inefficiency of the CRR auction, the Straw Proposal pivots to attempting to address the separate problem of revenue inadequacy in a manner that doesn’t entirely consider the harms created by the auction inefficiency. The Straw Proposal would allocate revenue inadequacy to all CRR holders, whether those CRRs were obtained at a discount in an inefficient auction or were allocated to LSEs who are paying the transmission access charge that is many multiples of the value of the allocated CRRs in almost all cases. The Straw Proposal thus does not equitably allocate the shortfalls.

CAISO should consider alternative approaches for allocating revenue inadequacy that would be more equitable considering the costs for participating in the allocation and auction processes. For example, CAISO could apply the shortfall first to the lowest value auction CRRs, then to the highest value auction CRRs, then to allocation CRRs, similar to the approach included in the *ex ante* de-rate approach CAISO discussed with the Market Surveillance Committee on April 5,

¹ Straw Proposal p. 5

2018.² This approach would prioritize the allocation of the shortfall to those who contributed the least in recovering the cost of the underlying transmission system that supports the CRR auction, and it would recognize that the auction CRRs contribute more to the revenue inadequacy than the allocation CRRs because the revenue inadequacy would be decreased, in the absence of the auction CRRs.

Additionally, CAISO has not demonstrated the extent to which its Track 1B Straw Proposal would reduce payments to both auction and allocation CRRs. At a minimum, CAISO should show how different classes of CRR Holders would be affected by the Straw Proposal. Ideally, CAISO would provide a tool that CRR Holders could use to estimate the degree to which the value of individual CRRs would be expected to be reduced based on their contribution to the revenue shortfalls, so that their future nominations/bids could reflect those expectations.

Finally, CCSF continues to believe that CAISO should address the underlying cause of the auction inefficiency, including evaluating in more detail the willing buyer/willing seller approach. If it is not possible to implement that approach as part of Track 1B, it should be included in Track 2. It is premature to dismiss the willing buyer/willing seller approach, especially because no other approaches that directly address the underlying inefficiency of the CRR auction have been shown to be viable and superior.

² Market Surveillance Committee Meeting, Congestion Revenue Rights Auction Efficiency Discussion presentation, Perry Servedio, Slide 7. http://www.aiso.com/Documents/Presentation-CongestionRevenueRightsAuctionEfficiency-Apr5_2018.pdf