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February 28, 2018

California Independent System Operator  
P.O. Box 639 014  
Folsom, CA 95630

Subject: MCE Comments on Draft Final Proposal- Congestion Revenue Rights Auction Efficiency, Track 1

Marin Clean Energy (MCE) appreciates the opportunity to provide the CAISO with comments on its Draft Final Proposal on Congestion Revenue Rights (CRR) Auction Efficiency. MCE supports several elements of the Draft Final Proposal, and also raises concerns for some elements. Finally, MCE supports the proposal put forth by Southern California Edison (SCE), which separates the allocation and the auction in the process to allow financial and physical entities to continue to participate in the CRR Auction while requiring any CRR Auction transaction to be between a willing buyer and a willing seller.

Fundamentally, more transparency and mechanisms put in place to standardize inputs between the models would result in a higher rate of convergence and more accurate pricing assessments and would therefore help with revenue inadequacy. MCE supports CAISO's proposal to continue providing all outage information, and agrees that CAISO should provide all transmission constraints and contingencies that may be enforced in DAM rather than just what was enforced in the auction and allocation processes. Having this consistency to DAM will encourage market participants to properly value source and sink pairs and hedges.

MCE also supports more aggressive enforcement of annual outage reporting deadlines to better align CRR allocation and auction processes. MCE considers model inconsistencies between the IFM and the CRR process to be the largest contributor to congestion revenue inadequacies. As a Short-Term mitigation, MCE generally supports reducing eligible pairs in the CRR Auction to Gen to Hub and Hub to Hub pairs. However, since inadequate revenues are more a result of large modelling differences between CRR processes and IFM, auction participants will simply adjust their bidding to accommodate allowable pairs with the highest financial (non-physical) congestion rents. The CAISO does not demonstrate that this behavior will be eliminated as their analysis indicates that the deficiency is mainly due to the modelling differences.

However, MCE is not convinced that CAISO demonstrated that reducing the transmission capacity from 75% to 45% for the annual allocation will resolve the overselling of available capacity unless the modeling issue is resolved first. MCE agrees that there will be a shift of volume to the monthly processes. Additionally, CAISO should address the requirement imposed on LSE's to backstop CRR payments when the CAISO is clearing Auction bids with no offsetting seller in the auction. Auction participants must be accountable for any revenue deficiency or auction reserve prices must be imposed to ensure no deficiency is realized. MCE

receives numerous CRR allocations through the load migration process that better align with the IOUs' generation portfolio than our own. MCE would be very interested in nominating some allocated CRRs into the auction.

The CAISO found that transmission owners failed to report more than half of the outages on transmission equipment of at least 200 kV on- time. Because outage information used in the CRR market run is different from the IFM, real differences in topology result in unsystematic congestion revenues between the two markets. In addition, derating outages between 1 and 10 days in the CRR auction and modelling different nomograms in the IFM promote discrepancies in the outputs.

These inconsistencies make it difficult for market participants to properly value source/ sink pairs and hedges, leading to a risk premium placed on CRRs and consistent underfunding. Limiting the number of combinations, and what type of nodes can be combined, would significantly reduce liquidity in the market and would not resolve the essential issue of hedging risk due to the impact of a binding constraints. As an alternative, CAISO should consider the proposal advanced by SCE, where CRRs that are feasible are allocated based on the transmission grid capability, while facilitating a separate auction market to exist between willing counterparties. MCE respectfully asks the CAISO to take immediate action to remedy the CRR auction process within its proposed Track 1 modifications to the current process and reduce the ongoing harm to LSEs through the current CRR auction. Specifically, management should implement the willing buyer/willing seller framework such that load receives the full value of congestion and auction results are supported only by willing sellers.

Sincerely,

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