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THE OFFICE OF RATEPAYER ADVOCATES' (ORA) COMMENTS ON THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR'S (CAISO) CONGESTION REVENUE RIGHTS (CRR) AUCTION EFFICIENCY, TRACK 1 DRAFT FINAL PROPOSAL POSTED ON FEBRUARY 8, 2018 AND PRESENTATION ON FEBRUARY 13, 2018

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The Office of Ratepayer Advocates (ORA) is the state's independent consumer advocate with a mandate to obtain the lowest possible rates for utility services, consistent with reliable and safe service levels, and the state's environmental goals.

ORA submits the following comments on the CAISO's Track 1 proposal for the CRR Auction, which are provided in sections 1 through 4 and CRR Auction Track 2 proposal, which are provided in section A. The CAISO's Track 1 proposal includes four solutions, which are:

1. Aligning restrictions on allowable source and sink pairs in the CRR allocation and auction.
2. Withholding CRR market model information and instead providing information on all outages, contingencies, and constraints.
3. Lowering the percentage of system capacity available in the annual CRR allocation and auction.
4. Requiring earlier outage reporting and providing greater specificity on the outage reporting requirements.

These solutions would likely require tariff changes and thus approval of the Federal Energy Regulatory Commission (FERC). The CAISO anticipates presenting these solutions to the CAISO Board on March 21-22, 2018. The CAISO intends to post a Track 2 CRR Auction straw proposal in April 2018.

A. The CAISO should move as expeditiously as possible to implement a CRR Auction design that would limit CRR Auction transactions to only those between willing buyers and willing sellers.

Modifying the CRR auction structure to one that pairs willing buyers and sellers would resolve the main CRR auction market design flaws.[1] These design flaws force ratepayers through their Load Serving Entities (LSE) to sell CRRs that have been reserved or are otherwise not allocated at any price, including a zero price, in the CRR auction. In addition, these flaws force ratepayers

[1] *Comments on the December 19, 2017 Congestion Revenue Rights Auction Efficiency Working Group Meeting and Presentations*, January 12, 2018 (ORA January 12, 2018 CRR Comments), pp. 4-5.

to fund any CRR auction shortfall if the revenue from the auction does not cover the payments to purchasers of auction CRRs after the Day-Ahead Market clears.

According to the Department of Market Monitoring (DMM), the CRR auction revenue shortfall since the market began in 2009 to the fourth quarter of 2017 is $730 million.[2] Based on DMM's CRR Auction analysis, the primary recipients of CRR auction profits are financial and marketer entities, with CRR auction profits ranging from approximately $135 million to approximately $295 million annually between 2012 and 2016.[3] Ratepayers fund these CRR auction profits without any demonstrable or measurable benefits.[4]

An auction design that limits CRR auction transactions to those between willing buyers and sellers would eliminate the need for the Track 1 proposals. While ORA supports some of the Track 1 proposals as interim solutions that may address some of the CRR auction problems, none of the proposed solutions address the CRR auction market's fundamental flaw of forced ratepayer participation. ORA, therefore, recommends parallel consideration of a CRR market design that does not rely on "conscripted sellers."[5]

1. The CAISO Should Align the Allowable Source and Sink Pairs in the CRR Allocation and Auction process.

Currently, the CRR allocation process limits the sinks where LSEs can nominate CRRs to the LSE Default Load Aggregation (DLA) or the Sub-LAP.[6] In contrast, CRR Auction Bidders have no limitations on the type of locations that can be used for source and sink locations. As a result, transactions that do not appear to be related to energy delivery, such as CRR nominations between two sources, clear the CRR Auction.[7] These types of transactions, as noted in the CRR Auction Analysis report, also represent the bulk of the net CRR payments on CRRs awarded in

[2] *Q4 2017 Report on Market Issues and Performance*, February 14, 2018, DMM, p. 24. The CRR revenue shortfall has increased since the inception of this initiative from $680 million to $730 million based on the DMM market performance reports.

[3] *Ratepayer CRR Auction Losses*, Congestion Revenue Rights Working Group, April 18, 2017, DMM presentation, slide 4.

[4] *CRR Auction Analysis Report*, CAISO, November 21, 2017 (CRR Report), p. 21. The CRR Auction Analysis report "only illustrates those benefits that are tangible to the CAISO." Attempting to quantify intangible benefits from CRR Auctions (such as reduced risk premiums for hedging basis risk and added liquidity) would be very challenging. Without confidential information from auction participants on transactions occurring outside the CAISO market, precise quantification of auction benefits would be impossible.

[5] *Comments on the CRR Auction Analysis Working Group*, DMM, January 16, 2018, p. 3.

[6] *Fifth Replacement Electronic Tariff Section 36*, Congestion Revenue Rights, June 2, 2016, CAISO, Section 36.8.2.

[7] *Congestion Revenue Rights Auction Efficiency Track 1 Draft Final Proposal*, February 8, 2018, CAISO, (CRR Track 1) p. 32.

the monthly and annual auctions.[8] These transactions have resulted in $280 million in net payment deficiencies [in the CRR auction] since 2014.[9] The majority of other Regional Transmission Organizations (RTOs) restrict the allowable pairs to those that are "not electrically equivalent."[10]

To address these issues, the CAISO proposes to limit the allowable source and sink pairs in the CRR auction to only those associated with energy delivery. This would eliminate nominating a generator as both a source and a sink. ORA supports this solution because it would limit source and sink pairs to locations required to hedge the physical delivery of energy, which is the purpose of CRRs. It would also remove the discrepancies between the restrictions in the CRR allocation and auction process that disadvantage LSEs compared to auction participants. However, it is a limited solution because it would not address the main auction design flaws described in section A above.

2. ORA does not recommend withholding CRR Market Modeling information as part of the CRR Auction Efficiency solutions.

Inherent limitations to the CRR market modeling practices support not using the CRR market model in the auction process, but instead relying on a market design that allows willing CRR sellers to determine the number of CRRs in the auction. CAISO's CRR market modeling relies on LSEs' provided information on known outages as well as known constraints and contingencies at the time of the modeling, and the CAISO's interpretation of how these factors will impact transmission conditions.[11] For example, the CRR model does not consider short-term outages of less than 10-days that could impact the system even when known. Instead, the CAISO captures the impacts of this type of outage through a de-rating methodology, which does not adequately capture the impact that these outages have on congestion in the CRR auction.[12] CRR model results also provide just a snapshot of the likely transmission conditions by offering CRRs for only two distinct time periods (one peak and one off peak period).[13] This modeling practice does not sufficiently reflect the range of annual operating conditions of the CRR market. For example, factors such as constraints that failed to bind but contributed to congestion in the Day-Ahead market, or missing outage information, frequently contribute to market distortions that contribute to both market inefficiency and net payment deficiency.[14] Therefore, ORA recommends that the CAISO remove this solution from the Track 1 proposal, because it would not address the problem of relying on a model that is restricted to limited future condition scenarios to determine feasible transmission constraints and CRRs.

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[8] CRR Auction Analysis Report, CAISO, November 21, 2017, p.6.

[9] CRR Track 1 Proposal, p. 34.

[10] CRR Track 1 Proposal, p. 21.

[11] CRR Track 1 Proposal, pp. 16-18.

[12] CRR Track 1 Proposal, p. 24.

[13] Business Practice Manual for Congestion Revenue Rights, July 25, 2017, CAISO, (BPM CRR), pp. 11 and 70.

[14] CRR Track 1 Proposal, p. 23.

3. The CAISO Should Limit the Capacity Offered in the Annual CRR Allocation and Auction.

The CAISO proposes to release less transmission capacity in the annual CRR allocation and auction process to reflect the transmission capacity that will ultimately be available. To this end, instead of releasing 75% of the system capacity in the annual CRR process, the CAISO proposes to release 45% of the system capacity. The majority of other RTOs release less than 75% of their system capacity for their annual Financial Transmission Rights (FTR) [15] process, reserving more capacity for their monthly CRR process.[16] Reducing the system capacity offered in the annual auction would address issues with awarded CRRs that become infeasible.[17] This solution would not address the main flaws with the CRR auction design described in section A above; however, ORA recommends its implementation as an interim measure.

ORA also recommends eliminating the CRR set-asides for the annual and monthly auctions. It is the CAISO's current practice to set aside 50 percent of intertie capacity for the CRR auction during the annual and monthly allocation process after certain allocation rounds.[18]

4. The CAISO Should Require Earlier Outage Reporting and Clarify Outage Reporting Requirements

CAISO proposes to increase the amount of outage information modeled in the CRR annual auction and allocation, and target only those facilities that directly influence the CRR model results through earlier reporting requirements and greater specificity on required outage reporting.[19] CAISO is targeting the annual CRR market for this proposal because the largest errors in predicted transmission constraint feasibility are observed in the annual CRR market, and these errors have spillover effects for the monthly market. For example, 2018 already experienced 6,000 megawatts (MW) of infeasible transmission constraints while 2017 had 12,000 MW infeasible transmission constraints.[20] Currently, the CAISO requires that annual maintenance plans be submitted by October 15th of each year. This proposal would require that

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[15] "All ISO/RTOs in the United States of America operate financial transmission rights markets. Each market is designed differently, however, they all release obligations to pay or be paid based on day-ahead market congestion." CRR Track 1 Proposal, p. 19.

[16] CRR Track 1 Proposal, pp. 19-20.

[17] ORA January 12, 2018 CRR Comments, pp. 7-8.

[18] CRR Track 1 Proposal, pp. 15 & 17. Annual auction: "After the second allocation round the CAISO reserves half of the un-allocated intertie capacity for the auction round." p. 15. Monthly auction: "After the first allocation round the CAISO reserves half of the un-allocated intertie capacity for the auction round." p.17 and CRR BPM, Section 7.1.2, p. 22. "After tier 1 of the monthly CRR Allocation the ISO will calculate and set aside for the monthly CRR Auction 50% of the residual capacity at the Scheduling Points."

[19] Congestion Revenue Rights Auction Efficiency CRR Track 1 Draft Final Proposal Presentation, February 13, 2018, CAISO, (CRR Track 1 Presentation), slide 21.

[20] CRR Track 1 Presentation, slide 22.

all planned outages be submitted by July 1st of the each year, to allow sufficient time to model the impact of these outages prior to the annual CRR allocation and auction.[21] Other RTOs require outage reporting further in advance of the operating year than CAISO's current deadline, and some RTOs require on-going updates.[22]

If you have any questions on this submittal, please contact Kanya Dorland at Kanya.Dorland@cpuc.ca.gov or (415) 703-1374.

[21] CRR Track 1 Proposal, p. 25.

[22] CRR Track 1 Proposal, p. 19-20.