



## Comments of Pacific Gas & Electric Company

### Congestion Revenue Rights Auction Efficiency, Track 1 – Draft Final Proposal

Submitted by	Company	Date Submitted
Alan Wecker (415-973-7292)	Pacific Gas & Electric	March 1, 2018

Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator’s (CAISO) Congestion Revenue Rights Auction Efficiency, Track 1 – Draft Final Proposal.

PG&E urges the CAISO to quickly pursue reforms to the CRR auction and to mitigate persistent losses to California ratepayers. Under the current CRR auction design, there is little measurable benefit to LSEs from the CRR auction as opposed to the CRR allocation, yet LSEs bear significant risks arising from the auctions regardless of their participation in auctions. PG&E asks the CAISO and other stakeholders to recognize that, due to the inherent differences between the transmission models used in the CRR market and in the Day Ahead market<sup>1</sup>, the current market structure inherently creates mismatches that cannot be resolved without major changes to the market structures. PG&E supports DMM’s proposal to eliminate the CRR auction or to replace it with a market that clears among willing participants (e.g. SCE’s proposal to release all transmission capacity in the allocation tiers and only allow for auction transactions between willing counterparties.) While some work must be done to structure the auction in a fashion that would facilitate its ability to arrange trades between willing trading parties, such a design goal is achievable. The CAISO should commit in its Track 1 proposal to the Board of Governors and in its Track 1 filing at FERC to make these fundamental design changes in 2018.

In the CAISO’s Track 1 Draft Final Proposal, it proposes four modifications aimed at reducing the congestion revenue right (CRR) net payment deficiency. While PG&E appreciates the CAISO’s desire to find solutions that can be implemented quickly, we do not believe most of these stopgap measures are likely to have any positive impact on the CRR market. The issues associated with the CRR auction design that result in transmission ratepayer losses, which the CAISO calls “net payment deficiencies”, are fundamental to the method that the CAISO uses to model and fund CRRs.

---

<sup>1</sup> The CRR processes use only two time-periods to represent an entire month of Day Ahead market runs in the monthly CRR processes and three months of Day-Ahead market runs in the seasonal CRR processes.

## Congestion Revenue Rights Auction Efficiency, Track 1 – Draft Final Proposal

1. The CAISO should file the needed Track 2 changes consistent with the DMM and SCE proposals to CAISO’s CRR auction market design at FERC by September of this year.

The CAISO’s Draft Final Proposal provides a schedule that begins in early 2017, when the ISO provided a briefing on analyzing congestion revenue rights auction valuation to the Market Surveillance Committee, and ends in March 2018, when the Track 1 policy is proposed to be adopted at the Board of Governors’ meeting. PG&E does not believe that the lack of a schedule for Track 2 was intentional, but we are concerned that the lack of schedule will lead stakeholders to believe that Track 2 would not begin until after Track 1 proposals are adopted by FERC or implemented by the CAISO. To address this concern, the CAISO should include in its proposal to the Board of Governors’ a statement that the CAISO intends on file Track 2 changes to the CAISO’s CRR auction market design at FERC by September of this year regardless of any FERC action on the Track 1 stopgap measures. In Track 2, PG&E supports DMM’s proposal to eliminate the CRR auction or to replace it with a market that clears among willing participants (e.g. SCE’s proposal to release all transmission capacity in the allocation tiers and only allow for auction transactions between willing counterparties.)

2. The reduction in nodes where market participants can procure CRRs may have some positive benefits, but should only be viewed as a stopgap measure when filed at FERC.

In Section 6.4 of the CAISO’s Draft Final Proposal, the CAISO proposes to limit the allowable source and sink pairs to only those associated with supply delivery. Based on the CAISO’s CRR Auction Analysis Report, many of the CRR pairs that contributed to the greatest net payment deficiencies were gen-to-gen and intertie-to-gen pairs. Because market participants can use “non-delivery pairs” to unwind long CRR positions, it is likely that the CAISO’s expected benefits from these changes are somewhat overstated. However, the change has a significant enough chance to reduce the transmission ratepayer losses to justify moving forward, such that PG&E would support this as a small improvement to the process.

3. PG&E does not believe the impact of adding a new outage reporting date in July will lead to improved transmission outage forecasts. PG&E asks the CAISO to consider more effectively using the currently available transmission outages provided in October in the Annual Auction.

The CAISO’s first proposed modification in its Draft Final Proposal is to require the advanced submittal of outages that could potentially impact the congestion revenue rights allocation and auction process. While PG&E supports having a reasonable deadline to include outage information into the CAISO’s Annual CRR process, the CAISO’s proposed change is unlikely to have the impact the CAISO desires. Unless the outage is quite significant, the specific details necessary for PG&E to submit the transmission outages to the CAISO are not known 12-15 months in advance. Therefore, PG&E is concerned that the proposal to require CRR transmission outage information in July will simply decrease the number of outages the CAISO is likely to receive because of the earlier reporting date. PG&E asks the CAISO to consider adjusting existing processes to ensure that currently provided outage information submitted in October can be integrated in the CRR model for the Annual CRR Auction. PG&E was surprised to learn that this information is not included in the Annual CRR process and believes that this minor change could accomplish many of the goals associated with adding the July requirement.

## Congestion Revenue Rights Auction Efficiency, Track 1 – Draft Final Proposal

4. The CAISO should comprehensively assess the amount and type of outages it requires for the Annual CRR process.

While PG&E appreciates the CAISO attempting to reduce the burden of outage reporting, PG&E asks the CAISO to comprehensively assess the amount and type of outages it requires for the Annual CRR process. For example, it is unclear whether the CAISO has analyzed the current threshold of 24 hours to determine whether outages of different durations truly have an impact on seasonal CRR awards acquired through the Annual CRR process. PG&E would like to understand if changing the threshold for outage submission to 2 weeks or greater would have a significant impact on the annual CRR awards. This type of analysis would be helpful in determining whether the current outage reporting information, which the CAISO is intending to make public and provide to FERC, is appropriate.

5. PG&E does not believe eliminating CRR market model disclosure will positively impact net payment deficiencies since market participants already have sufficient information from previous models to forecast how the CAISO will model existing constraints.

In Section 6.2 of the CAISO's Draft Final Proposal, the CAISO proposes to eliminate certain information from the congestion revenue rights model disclosure. As a result, the CAISO will no longer provide CRR model data associated with which facilities are modeled as out-of-service, which constraints will be enforced, and which contingencies will be enforced. PG&E does not see the same value as the CAISO proposes to this change because it has already provided this information to market participants. Unless the CAISO is planning on drastically changing its existing methodologies to determine how the CRR model will handle out-of-service facilities, constraints, and contingencies, the past information with CAISO modeling decisions will allow market participants to accurately predict these items. Therefore, PG&E does not believe that uncertainty related to discretionary modeling decisions can be resolved through withholding information from market participants.

6. The CAISO's proposal to lower the percentage of system capacity available in the annual CRR process.

In Section 6.3 of the CAISO's Draft Final Proposal, the CAISO proposes to lower the percentage of system capacity available in the annual CRR process. Under the current process, the CAISO releases 60% of system capacity to load serving entities for 10 year terms through the long term CRR allocation round. In the three annual CRR allocation rounds and the annual CRR auction, the CAISO releases 75% of system capacity for the following calendar year. While PG&E would like to reduce the amount of revenue inadequacy in the CRR process, the CAISO has not justified why these percentages are appropriate. While the CAISO's CRR Auction Analysis Report provides an analysis of revenue adequacy by transmission element, it does not provide any data related to how much transmission capacity reductions in the annual process would reduce revenue inadequacy nor net payment deficiencies. PG&E would appreciate this analysis before proceeding with reducing the system capacity released in the annual CRR process.

Additionally, PG&E is concerned that lowering the percentage available in the annual CRR process (reducing revenue inadequacy) will mask financial entities' ability to profit from modeling differences between the CRR auctions. Many stakeholders use revenue adequacy as a metric to represent how the CRR process is functioning. At an extreme, the CAISO can create near certainty of achieving revenue

## **Congestion Revenue Rights Auction Efficiency, Track 1 – Draft Final Proposal**

adequacy by lowering the percentage of system capacity to lower and lower levels. Even though revenue inadequacy will be diminished, net payment deficiencies will continue. As a result, revenue adequacy will no longer reflect a useful metric to determine whether the CRR process is functioning properly.