Comments of Pacific Gas & Electric Company

Congestion Revenue Rights Auction Efficiency, Track 1B – Straw Proposal

Submitted by	Company	Date Submitted
Alan Wecker (415-973-7292)	Pacific Gas & Electric	May 9, 2018

Pacific Gas and Electric Company (PG&E) respectfully offers the following comments on the California Independent System Operator's (CAISO) Congestion Revenue Rights (CRR) Auction Efficiency Track 1B Straw 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[1], the current market structure inherently creates mismatches that cannot be resolved without major changes to the market structures and imposes substantial risks and costs on customers. PG&E supports CAISO's proposal to equitably allocate shortfalls among congestion revenue rights and eliminate incentives to bid for low-priced high-payout paths that profit from these modeling issues. While additional measures should be explored, PG&E believes that the CAISO's proposed Track 1B changes are worth adopting in 2019 because they could make a significant impact on CRR revenue inadequacy.

1. <u>PG&E supports the CAISO's timeline to adopt the Track 1B proposal in time for 2019 congestion revenue rights settlement.</u>

In the CAISO's Track 1B Straw Proposal, it describes the intent of the CAISO to ask for Board of Governors' approval by June to achieve FERC approval in time for the 2019 annual process. Considering the magnitude of the monthly losses PG&E sustains due to CRR market design flaws, PG&E believes getting the proposed measure in place for 2019 is critical and appreciates the CAISO's willingness to develop this proposal on an expedited manner.

[1] 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.

2. <u>PG&E supports pursuing a reduction of congestion revenue rights payments based on effectiveness on constraints.</u>

PG&E supports the CAISO's proposal to reduce congestion revenue rights payments based on each congestion revenue right's flow over constraints generating congestion revenue rights payment shortfalls. The CAISO's proposed cost allocation methodology is more equitable than the status quo because it allocates revenue inadequacy to the specific CRRs that cause revenue inadequacy. The CAISO's proposed methodology allocates costs in proportion to the dollar amount of inadequacy caused by each CRR. This results in only CRR holders whose CRRs cause revenue inadequacy paying for revenue inadequacy. This proposal correctly values the benefits of cost causation. As CAISO describes in its Track 1B Straw Proposal, another key benefit of this allocation methodology is that the accuracy of modeling transmission outages that span less than the auction product is much less significant. The allocation methodology also improves not only the cost allocation amongst auction participants, but improves the cost allocation amongst all market participants, including allocation CRR holders. Allocating congestion revenue rights payment shortfall costs by constraint adds necessary fairness to revenue inadequacy as well as promotes the type of risk-sharing that is likely to reduce the amount of speculative bidding that triggers significant net payment deficiencies.

3. <u>The CAISO should modify the shortfall calculation to ensure that counter-flows are not adjusted when binding constraints lead to revenue deficiencies.</u>

In the CAISO's Straw proposal, the CAISO provides a formula to allocate revenue shortfalls to CRR holders. To reduce the imbalances on constraints where congestion revenue rights schedule flow is greater than the day-ahead market scheduled flow, it appears that the CAISO applies adjustments to both flows in the direction of the binding constraint, as well as counter-flows against the binding constraint. PG&E does not support this approach, as it could lead to reducing the payments that CRR holders must pay the CAISO because of taking the negative position of expected flows. The fact that the counter-flow may have slightly reduced the amount of flow does not impact the fact that the constraint was still over-allocated. Therefore, the CAISO should modify its formulas to ensure that the settlement of counter-flows in the opposite direction of the over-allocated binding constraints are not adjusted based on the shortfall.

4. <u>The CAISO should allocate surpluses in a way that promotes a properly functioning CRR market.</u>

In Section 5.2.1 of the CAISO's Straw Proposal, the CAISO asks for stakeholder input on allocation methodologies for surplus revenues. PG&E agrees with the CAISO that surpluses should not be paid to each congestion revenue right in proportion to its effectiveness on surplus generating constraints because the portion of the congestion revenue rights that flows on the surplus collecting constraint have already been paid in full. In all cases, CRRs should not be paid more than the amount calculated by their settlement formula. CRR revenue deficiencies proportionally allocated to the CRRs (and their owners) which cause flows on deficit generating binding constraints seems to be an appropriate starting point. In principle, market design changes to the CRR market should be focused on ensuring CRRs are a useful tool for longer term congestion hedging. However, the design of the CRR market and surplus allocation process should not promote rent seeking from modeling inconsistencies. Therefore, PG&E asks the CAISO to develop allocation solutions for net surpluses that supports these concepts.

5. PG&E does not support lowering the percentage of system capacity available in the annual allocation and auction.

Section 5.3.1 of the CAISO's Track 1B Straw Proposal discusses a previous CAISO proposal to lower the percentage of system capacity available in the annual allocation and auction. PG&E recognizes that this alternative is likely to reduce revenue inadequacy. While PG&E supports reduce the amount of revenue inadequacy in the CRR process, PG&E does not support this alternative. The approach of reducing the impact of the Annual CRR process seems overly restrictive as an initial step. Additionally, the CAISO has not developed an appropriate methodology to determine how much to reduce the percentages the CAISO should award in the annual. 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 or net payment deficiencies. PG&E would appreciate this analysis before proceeding with reducing the system capacity released in the annual CRR process.

PG&E is also 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 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.

6. PG&E asks for further evidence of bidding behavioral changes based on CRR position before investigating reducing congestion revenue rights quantities each day prior to the day-ahead market.

In response to stakeholder proposals, the CAISO presents an ex-ante approach to reducing CRR payments by shaping the quantity of CRRs based on a pre-day-ahead market run of the simultaneous feasibility test. While this proposal benefits from using very accurate transmission data, the benefits of this form of a de-rate are questionable compared to the added accuracy of the ex-post de-rate, which uses actual flows. The CAISO describes this approach as likely the best option, at least in the long-term. The CAISO argues that the advantage of this approach is that market participants would be able to adjust their bilateral positions prior to the day-ahead market or change their participation in the day-ahead market to be consistent with their congestion revenue right supply delivery hedge. The CAISO should further describe what is means by market participants "adjusting their bilateral positions". Does this mean market participants would no longer provide energy to the CAISO, or does it mean that the market participants would provide energy at different locations? The value of this benefit depends on how much bidding behavior by market participants is based on congestion revenue rights hedging. Unless the CAISO can provide additional evidence that supports the claim that changes to CRR position effects day ahead physical participation, this benefit is highly speculative. Nonetheless, PG&E agrees with the CAISO that this proposal is not implementable for the 2019 CRR Annual Process, and supports deferring consideration of this proposal until Track 2.