Congestion Revenue Rights Auction Efficiency Initiative – Track 1 Draft Final Proposal

Submitted By	Company Name	Submittal Date
Nuo Tang ntang@semprautilities.com	San Diego Gas & Electric Company	March 1, 2018

SDG&E appreciates the opportunity to comment on the CRR Auction Efficiency Track 1 Draft Final Proposal. SDG&E understands that the CAISO wishes to implement a solution in time for the 2019 annual allocation and auction. On balance, SDG&E finds that the solutions proposed by the CAISO will not prevent load serving entities from paying for the significant CRR revenue deficiencies of the CRR auction. Instead, CAISO's proposed solution only attempts to minimize the revenue deficiency. SDG&E does not support the CAISO's proposal.

Over the last few years the IOUs have incurred hundreds of millions of dollars in uplift costs necessary to fully fund the CRRs that have been awarded through the CRR auction process. These massive uplifts need to end. SDG&E believes CAISO should consider alternative proposals such as SCE's proposal to limit the CRR auction to trades between willing buyers and willing sellers in Track 1.

The problem, as described by the CAISO, is that the CRRs awarded through the auction create payment obligations that significantly exceed the sum of (i) revenues derived through the clearing prices for the awarded CRRs, plus (ii) the associated source-sink congestion revenues generated in the CAISO's day-ahead market.[1] To fully fund the CRR payment obligations, uplifts are assessed on load serving entities. In CAISO's words, "the auction is not producing an efficient price for congestion revenue rights." Due to the modeling differences of the CRR model and the day-ahead market model, SDG&E does not believe auction clearing prices will consistently equal that of actual day-ahead congestion. Therefore, load serving entities will always bear the burden of the uplift costs for any revenue deficiency and this fundamental market mechanism must change.

For Track 1, CAISO proposes four changes that the CAISO believes will reduce price inefficiency.

First, the CAISO proposes to change the annual outage reporting deadline to more closely align with the annual CRR process. The proposed change would require Transmission Owners, by July 1st of each year, to submit planned transmission outages that affect the annual CRR process.[2]

[1] In many cases, the associated source-sink congestion revenues are zero because the binding constraint appears in real-time, not in the day-ahead market.

[2] CAISO has presented Historical Outage Reporting Performance which showing that SDG&E, on average, has not reported the majority of its transmission outages within the currently required time frame. The CAISO's presentation, however, counted numerous outages that do not affect simultaneous feasibility of CRRs; e.g., breaker outages in a double breaker configuration. In fact, with few exceptions, SDG&E has submitted outages affecting CRR feasibility within the required time frame. Accordingly, SDG&E does not believe advancing the date by which planned transmission outages must be reported to the CAISO will significantly reduce CRR revenue deficiency.

SDG&E objects to this proposal for several reasons. Requiring Transmission Owners to identify and lock-down the timing of planned transmission outages far in advance of when the outages will occur, will increase ratepayer costs by greatly diminishing the flexibility to schedule planned transmission outages in accordance with system conditions and personnel/equipment availability – which is often not known with certainty on July 1 of each year. Additionally, the need for planned transmission outages may not even be evident on July 1 of each year. One example is with the state of the art Condition Based Maintenance (CBM) Program for large power transformers. This program is designed to monitor for conditions instead of cyclical maintenance teardowns. CBM equipment can often detect issues, such as internal overheating, when a problem first develops. If it's after the July 1 scheduling window, something that began as a small and fixable problem could advance to a serious issue over the next 18 months. Worst case, the asset could fail before maintenance could be performed. Ratepayers will be exposed to increased maintenance and accelerated replacement costs.

Scheduling transmission outages for purposes of construction and maintenance is necessarily a fluid process with many unknown factors such as weather, fires, unexpected system conditions and emergencies, delays in delivering of equipment, availability of crews, permitting delays, obstacles in the field, etc. It is irrational to try to box-in this process within timeframes that are inconsistent with the uncertainties inherent in the process. Indeed, fixing transmission outage schedules far in advance of when the outages are planned to occur may actually result in an *increased* divergence between the transmission configuration assumed in the CRR auctions and the transmission configuration in the day-ahead market. This divergence could be exacerbated because the increased scheduling lead times contemplated by the CAISO proposal may require complicated outage work-arounds as events on the ground unfold closer in time to the operation of the day-ahead markets.

Increasing the outage scheduling window also poses compliance risks. With ever-changing regulatory requirements such as NERC PRC and NERC CIP, SDG&E relies on the current outage request timeframe in order to maintain a level of flexibility in managing our control and protection assets to meet reliability and compliance guidelines. Limiting outage planning on the affected assets to as much as 1.5 years out makes managing compliance incredibly difficult, as the compliance landscape can change within that timeframe to become more stringent than what is originally planned. Transmission line assets also have exposure to this problem. SDG&E's current CAISO-approved maintenance practice allows for a 12-month window to fix problems. In December 2017, the CPUC's GO95 Rule 18 was updated to require all issues in the High Fire-Threat District that present a fire risk, be repaired within 6 months. In both instances, if a problem is identified after the July 1 deadline, it will not be feasible to schedule an outage with the new requirements and to meet the compliance deadline. Fines for non-compliance with certain agencies can be as high as $1 million per day per violation.

Second, the CAISO proposes to eliminate certain information from the CRR model disclosure. SDG&E does not support this proposal because it does not improve the efficiency of price formation. The CAISO believes that withholding certain model details from market participants will limit auction participation designed to exploit CRR model discrepancies. SDG&E believes the CAISO's proposal reduces transparency and is generally not consistent with the goal of improving the efficiency of price formation.

Third, the CAISO proposes to release only 45% of transmission system capacity in the annual process. SDG&E does not support this proposal because it reduces opportunities for LSEs to hedge their generation portfolios in the annual process. The CAISO should specify the limitations to the Tier 1 annual allocation which is currently set to 50% and how it would change under the CAISO's 45% proposal. While SDG&E understands that releasing less transmission system capacity in the annual process would effectively push LSEs more into the monthly processes, it is unclear if the results would be similar given that the CAISO is not changing the monthly process limitations. SDG&E recommends the CAISO provide additional details for this proposal.

Finally, the CAISO proposes to limit allowable source-sink pairs in the auction. This only minimizes the amount of CRRs which may be auctioned and thus reducing the amount of uplift. It does not ensure constraints that are normally binding in the day-ahead market will be binding in the annual auction and increase the efficiency of price formation. SDG&E does not support this proposal because it does not accomplish the CAISO's goal of price efficiency.

Instead, SDG&E recommends the CAISO to consider other alternatives. The SCE proposal would allow CRRs to be transacted through the auction for any source-sink pair where a willing buyer and seller of the CRR was present. If the SCE proposal is implemented, load serving entities would not be party to the uplift costs because any revenue "deficiency" would be contained to only the auction participants. Uplift to LSEs arising from allocated CRRs could occur but SDG&E accepts this as necessary to maximize the amount of CRRs allocated. Eliminating all uplift from allocated CRRs would force the reduction of allocated CRRs to unacceptably low levels destroying much of the LSE hedging value CRRs were created for.

SDG&E looks forward to discussing the CAISO proposal in the future.