

Comments on: Congestion Revenue Rights Auction Efficiency – Draft Final Proposal

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The CAISO is at an important crossroad with the CRR product and the value related to the CRR product within the CAISO market. Vitol appreciates the opportunity to comment on the proposals set forth by the CAISO and looks forward to further discussion on the matter. Vitol generally supports the CAISO's efforts in seeking opportunities to improve the efficiency of the auctions; however, the company is not in agreement with the CAISO on several of their proposals. Included below are our comments. We look forward to working with the CAISO in the near future to find solutions that are in line with competitive market principles and beneficial to market place.

Other ISOs have spent considerable time and resources to deploy congestion management products that add value in many ways, including price formation, transparency, hedging activity, and effective risk management, to name a few. We ask the CAISO, prior to moving forward with several of their proposals, to be more thorough in their evaluation and understanding of both the current value of the product and the intended and unintended consequences and costs related to their proposals. At this point, we do not believe that the CAISO has thoroughly vetted the complete value of the CRR product and, therefore, believe that several of the CAISO's proposals could cause more harm to the market, including load.

Vitol's responses to each of the CAISO's proposed changes are as follows:

- 1) Create an annual outage reporting deadline for the annual congestion revenue rights process.**
 - a. Vitol supports this enhanced process and accountability as it is important to minimize the indirect costs to load associated with transmission outages that are reported in a manner that precludes the CAISO from including the outages in the CRR auction model. Because of the lack of accountability for the adverse impacts on the market caused by the current transmission outage scheduling practices, transmission owners have a free option that creates CRR underfunding risk for others, mainly consumers. When planned and non-emergency maintenance outages are not accounted for within the CRR auction model, there are mismatches between the available transmission capacity in the CRR auction model versus the available transmission capacity in the day-ahead energy market model during the days when the outages occur. Because of this, the risk of over-selling CRR capacity in the auction and realizing CRR underfunding in the day-ahead energy market increases. This eventually harms consumers, whether through responsibility for paying CRR underfunding or through realizing lower CRR auction prices that are risk-adjusted to account for under-funding risk.
 - b. Vitol would like to enhance this proposal to include the following:
 - i. Monthly reporting requirements for the monthly auction.

1. Similar to requiring annual transmission outage reporting that occurs prior to the annual CRR process, CAISO should implement transmission outage reporting deadlines that are coordinated with monthly CRR auctions.
 - ii. Financial accountability assigned to the transmission owner(s) when avoidable and/or manageable outages have a direct impact on daily underfunding.
 1. When faced with avoidable and/or manageable transmission outages, the transmission owners should evaluate and be responsible for the costs associated with the risk management decisions. While imposing outage reporting deadlines that are coordinated with annual and monthly CRR auctions is an improvement, utilizing economic incentives will greatly help to enforce compliance with reporting requirements and to shift unreported planned and non-emergency maintenance outages to time periods with relatively low expected congestion, and hence low underfunding, risk.
 - iii. Evaluation and publication of “avoidable” outages and their impact on daily congestion underfunding.
- c. The CAISO study pointed out that there have been contributions to daily underfunding based on outage information or the lack thereof. We believe that this transfer of costs from the transmission company (generating the cost) to load can be avoidable in certain circumstances. We would request that the CAISO look deeper into this proposal and refine it moving forward so that the information, products, and transparency are optimized and, therefore, provide the greatest value back to load.

2) Eliminate certain information from the congestion revenue rights model disclosure.

- a. It is unclear as to how the removal of information from the market will positively impact the market.
- b. It appears that CAISO is moving in the opposite direction of providing more transparency so that market participants can better value the product, more efficiently manage risk, and subsequently provide value back to the market and load.
 - i. Intuitively, when transparency is reduced, rational economically motivated participants will adjust their bids to account for this uncertainty by lowering the price they are willing to pay for congestion rights. This harms consumers, as the full value of forward congestion is not maximized in the CRR auction.

3) Lower the percentage of system capacity available in the annual allocation and auction.

- a. Vitol supports this change, as long as the monthly auctions continue to include all remaining available transmission capacity that was not sold in the annual auction.

4) Limit allowable source and sink pairs in the auction.

- a. The CAISO has not demonstrated a complete understanding of, and/or calculated the potential value lost related to, their proposal of removing all generation-to-generation node paths in the auction.
- b. The CAISO is unaware of the short-term and long-term unintended consequences and possible direct and indirect costs to load related to this solution.
- c. The CAISO should utilize a more surgical approach that other ISOs employ, which is to remove CRR holders' ability to own electrically equivalent locations (paths) as a low cost or "free" option. Other ISOs have proactively and reactively managed these CRR paths with the removal of electrically equivalent locations (paths) and, therefore, removed these CRRs from the auction clear.
 - i. Removal of electrically equivalent node paths in the CRR auction would not encroach on legitimate congestion trading and risk management.
 - ii. The CAISO's proposal does encroach on legitimate congestion trading by eliminating legitimate paths and, therefore, increasing various risks and costs that filter to load, both directly and indirectly.
 - iii. The CAISO's approach is more of a "broad brush" to eliminate legitimate and "non-legitimate" activity.
- d. The CAISO's proposal suggests removing the "targeting" of risk related to congestion and introduces incremental risk, uncertainty and costs.
 - i. The ability for a market participant to isolate its risks and value congestion provides more value to the market in general vs. making a market participant take risks on paths, and congestion, among other things, when unnecessary.
 - ii. By removing legitimate congestion paths and the ability to unwind existing exposure the CAISO is actually adding more risk to the market and, therefore, perpetuating the "risky financial product" label that is given the CRR product.
 - iii. Eliminating paths (and therefore limiting transmission capacity) will lead to lowering the overall forward value of congestion rights payments to load. This goes against the objective of maximizing the value of the grid within the CRR auction.
- e. If CRR Auctions and DA markets are properly modeled and they reflect the power system as accurately as possible, the granularity and combinations of CRRs the market uses to manage congestion risk should be irrelevant to the performance of the Market. If models are correct or more accurate, having more combinations of CRRs will improve how the market values future congestion and how the value of DA congestion rent will be re-distributed in the market; it will not, and should not, have any impact on the value of DA congestion.

General Comments:

- **Evaluation and discussions surrounding the utilities' "hurdles" in participating and valuing congestion in the auctions.**

- Competition plays an important role in the effectiveness of any product within the market. We do believe that if the utilities had better aligned incentives and lower barriers in participating, the product's perceived value would be greater. We do recognize there are elements of risk and costs associated with this product; however, regulations significantly minimize the incentives for some counterparties to value congestion and effectively manage their respective portfolio risks with the CRR product.

Next Steps – Implement impactful changes, then evaluate!

Track 0 – Implement

Track 1 – Transmission Accountability & Reduction of capacity

Other:

- Removal of electrically equivalent node paths
- Removal of \$0 price Gen to Gen CRRs if cleared in auction
- Shift daily underfunding back to the CRR holders

Vitol believes that the CAISO would be making a mistake by implementing several of the proposal items when not taking into consideration the current value of the product and/or the potential negative impacts. We believe it is proper to implement Track 0, a modified Track 1 and three other items that are easily implemented and positively impactful.

Implementing the CAISO's proposals surrounding the removal of node paths and removing specific transparency appear to be counterintuitive to the general purpose of the product, its value back to the market and, more importantly, its value back to load. The CAISO's proposal also does not address any assessment of cost impacts and/or unintended consequences that could negatively impact load and could heavily outweigh the current perception of "cost to load." These two proposals are perceived as "knee jerk" reactions to an incomplete calculation presented to the market and management. The CAISO and others have used a calculation that focuses only on the settlement price in the day-ahead vs. the price of settlement in the CRR auction. For the stakeholder community to use this calculation as a benchmark for value or cost is flawed. This calculation is missing both the benefits of the product and any and all costs associated with not having the product (or a portion of the product). The current calculation only focuses on a fraction of what should be evaluated in understanding the overall impact the CRR product has on the market. Without a complete evaluation and, therefore, a complete equation that takes into consideration all aspects of the product (costs, benefits, among other aspects), we are misleading the stakeholder community, regulators and management. Vitol respectfully requests the CAISO to reconsider the proposals and work with the stakeholder community in an effort to not trade one cost or issue for another cost or issue, but rather find rational and reasonable solutions that will benefit the market and the products traded.