

Comments on Contingency Modeling Enhancements: Third Revised Straw Proposal

Department of Market Monitoring
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The Department of Market Monitoring (DMM) appreciates the opportunity to provide comments on the Contingency Modeling Enhancements Third Revised Straw Proposal.

DMM supports including the post-contingency transmission constraints in the market. These constraints can be relieved by both energy and corrective capacity counterflow. This approach will allow the ISO to more efficiently manage post-contingency recovery requirements, price the reliability service, and compensate resources for providing the service.

The latest proposal shows that the corrective capacity is providing a transmission service by allowing energy flows above the post-contingency constraint limit. Under this new proposal, the rents collected from the energy schedules flowing above the post-contingency constraint limit pay for the corrective capacity. DMM supports this *in-market* settlement instead of the *out-of-market* uplift described in the previous proposal, which would have created over payments for corrective and over payments to CRR holders that would have to be recovered through these out-of-market uplift charges.

The latest proposal also shows that the congestion revenue rights (CRRs) may not be revenue adequate when the post-contingency constraints are included in the day-ahead market but are not included in the CRR auctions/allocations. To reduce the risk of CRR revenue inadequacy, the ISO proposes to allocate Contingency CRRs that settle only on the LMCP congestion costs to CRRs based on their flow over the post-contingency constraint. This approach will help protect against revenue inadequacy due to not modeling the post-contingency constraints in the CRR processes. Revenue inadequacy could still occur when the post-contingency constraints limits used to determine the Contingency CRRs are different than the limits used in the day-ahead market (as can currently occur with all constraint limits).

While some may view the proposed approach as rescinding payments made to CRRs, this is not the case. The apparent rescission is simply an artifact of how the Contingency CRRs allocation is calculated. The Contingency CRRs are actually a vehicle to allow the CRRs to collect congestion rents from the post-contingency constraints without creating inherent revenue inadequacy.

We understand that the ISO is attempting to pay CRRs as much of the congestion rent on the lines between sources and sinks as possible without exacerbating revenue inadequacy. However, because the post-contingency constraints are not included or priced in the CRR auction, DMM questions the rationale for settling CRRs as if CRR holders have purchased the rights to congestion rents associated with these constraints. DMM suggests that an alternative would be to exclude congestion prices from the post-contingency constraints in CRR settlements. This would only pay CRRs for transmission rights actually purchased and would eliminate all potential CRR revenue inadequacy from post-contingency constraints.