

CRR Efficiency Analysis Working Group Comments

Load Serving Entities in Support of Market Efficiency and the CRR Auction

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The Load Serving Entities in Support of Market Efficiency and the CRR Auction (“LSE – CRR Auction Supporters”) is a group of entities, or their representatives, serving load in the CAISO, including the following:

- Alliance for Retail Markets
- Arizona Electric Power Cooperative
- Just Energy Solutions Inc.
- Shell Energy North America (US), L.P.
- Valley Electric Association, Inc.

LSE – CRR Auction Supporters rely on the CRR auction for managing the price risks associated with purchasing and scheduling energy to serve their customers. LSE – CRR Auction Supporters also recognize the importance of a workable, liquid and transparent CRR auction in providing the best purchase price on electricity for our customers.

The LSE – CRR Auction Supporters are pleased to submit these joint comments in response to the CAISO’s February 8, 2018 Draft Final Proposal and related stakeholder meeting discussions. We appreciate and support the focus of the proposal, which maintains the existence of the CRR auction, while making improvements to the auction efficiency. However, there are several elements of the Draft Final Proposal that are not supportable, as described in the comments that follow.

Reducing the annual capacity released to the levels proposed is an untenable resolution

The LSE – CRR Auction Supporters value the ability to obtain long-term hedges through the CRR auctions. While we recognize that the CAISO’s release of annual CRR capacity can overstate the ability of the system to fund the CRRs when changes occur between the CRR annual auction and the CRR settlements, the LSE – CRR Auction Supporters may find it unworkable to manage the level of reductions (to 45% of system capacity) that the CAISO has proposed be released in the annual CRR process. Instead, the CAISO should consider alternative designs to optimize the tradeoff between CRR quantities made available and revenue adequacy. The CAISO in its Track 2 should work towards implementing frequent auctions with multiple tenors. Such auctions work to provide an” anchor to bilateral basis pricing and a vibrant bilateral market.¹ We strongly encourage the CAISO to commit to fully explore such designs in Track 2. In addition, in its Track 1, the CAISO should temper significantly the reductions

¹ The reason a bilateral basis market exists in PJM but does not exist in California is because in California it is difficult to update the value of a given source-sink pair without a frequently published clearing price for a given tenor. Without frequent auctions for multiple tenors, the market does not have any “physical” guidance for assessing any expected transmission congestion.

in annual capacity proposed for Track 1 and commit to sunset these extreme reductions in annual capacity by the 2020 annual process.

Transmission Owner outage reporting must be enforced

The CAISO has proposed changes to what outage information is reported by Transmission Owners (TOs) and to the timeline for reporting those outages. LSE – CRR Auction Supporters support these proposed changes but are concerned that the proposal does not include sufficient compliance and enforcement provisions. Without strong enforcement requirements, the intended benefits of the proposed outage reporting may not be realized. We strongly encourage the CAISO to regularly report on TO performance reporting outages and to consider financial ramifications for TO violations in Track 2 to this initiative.

Limitations on source-sink pairs undermines efficient market hedges and the valuing of congestion

LSE – CRR Auction Supporters cannot support the CAISO's proposal to significantly restrict source-sink pair options for several reasons. First, the market – not the CAISO – should determine whether a particular combination of source and sink is of value. For instance, LSEs may not bid on gen-to-gen CRRs, but they do derive value from them, as they allow our generation counterparties to manage their risks and therefore provide a potentially lower cost energy supply.

Further, today's transactions require new and different ways of doing business. A particularly relevant example of this is the shift in LSEs' portfolios to comply with the state's goals to move to high levels of renewables. LSEs need ways to source power from one resource while ensuring there is backup supply from other resources, for example, when a renewable resource is not producing. We rely on CRRs for this purpose, as do our counterparties in order to reduce to the greatest extent possible the costs of such arrangements.

In short, the CAISO's determination that generator-to-generator CRRs or that hub-to-hub CRRs do not provide important and legitimate market needs is incorrect. Instead, the CAISO should re-focus its effort to simply remove electrically similar pairs from the set available in the auction, an accepted practice that has been implemented by other ISOs and RTOs as an effective way to limit bidding on pairs that only pay out in extreme situations.

Removing transparency from the CRR process is the wrong approach

The CAISO has proposed to reduce the amount of CRR model information that it provides to market participants by eliminating access to information about constraints and outages contained in its CRR model. LSE – CRR Auction Supporters are constantly having to value their CRR positions to achieve an understanding of observed market outcomes against their expectations of market behavior. Allowing all market participants to have the same high level of information about the CRR model is precisely what makes the auction efficient. Without that transparency, market outcomes become less predictable and bidding becomes inefficient, undermining the very purpose of the proposed changes to increase auction efficiency.

If the CAISO believes certain participants are exploiting market information, the answer is not to punish all market participants by withholding the information. Removing transparency will not add to CRR market efficiency.

In summary, LSE – CRR Auction Supporters very much need resolution of the CRR revenue inadequacy issues and prefer a market in which CRR clearing prices align with day-ahead CRR payouts. Undermining elements of the CRR market that provide transparency and flexibility, however, is not an appropriate or acceptable solution. Parties should not be prohibited from bidding on the CRRs that they need, and the CAISO should not view modeling opaqueness as a solution to managing the differences between the modeling of the CRR and day-ahead markets.

Thank you for your consideration.