



California LSEs' Opinions on Congestion Revenue Rights Enhancements (CRRE)

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Key Points

1. CRRE needs to balance CRRs' two primary purposes: reimbursing transmission rate-payers and providing a congestion hedge from supply to load
2. CRRs are working well as a hedge despite underfunding
3. This initiative should focus on three goals:
 - Improve underfunding through incremental enhancements
 - Evaluate the auction efficiency of unallocated transmission (post-CRR Allocation)
 - Avoid solutions that create additional problems

Balance CRRs' two Primary Purposes

1. Returning Congestion Costs to Load:

In LMP markets, congestion charges are assigned to load and then returned to load through CRR/FTRs, ensuring that the benefits of low-cost energy are distributed equitably. This is a core theoretical aspect of LMP design.

2. Enabling Congestion Hedging:

FTRs and CRRs are designed to allow market participants, particularly load-serving entities, to hedge against the risk of congestion costs arising from power transmission.



CRRs Are Working Well Despite Underfunding

- Allocated CRRs to LSEs have been working well at hedging against congestion between historic supply and loads
- There is still room for improvement
- Let's build on the 2019 changes that reduced underfunding and improved auction efficiency, not revert back
- CAISO's analyses reveal the problems of revenue inadequacy due to shift factor threshold modeling inaccuracy and unsettled flows

Goal: Improve underfunding through incremental modeling enhancements and identify any changes needed to accommodate EDAM market impacts

Address Unallocated Auctioned CRRs

- DMM's analyses indicate the CRR auction is the primary problem and reforming the auction mechanism should be the top priority
- The large volume of unallocated transmission capacity that is auctioned likely is a significant source of auction inefficiency

Goals:

1. Analyze the auction efficiency of unallocated transmission
2. Explore solutions that resolve this source of inefficiency while maintaining liquidity



Avoid Solutions that Create Additional Problems

- Track 1A and 1B improved revenue adequacy and auction efficiency
- Those changes should not be unwound absent clear reasoning and quantified benefits
- Revenue adequacy and auction inefficiency should be distinguished and treated separately

LSEs' Recommendations

- Explore incremental changes to modeling and allocation that improve underfunding
- Explore what changes to the auction of unallocated transmission could be made to materially reduce auction inefficiency
- 2019 improvements are working and should be built upon