



COMMENTS OF THE ALLIANCE FOR RETAIL ENERGY MARKETS (AReM) ON CRR AUCTION EFFICIENCY TRACK 1 DRAFT FINAL PROPOSAL

Submitted on behalf of AReM by:

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The Alliance for Retail Energy Markets¹ (AReM) is an association of electric service providers (ESPs), which are all load-serving entities (LSEs) serving customers in the competitive retail market in California. AReM's members are active in the CRR allocation process and participate in the CCR auction. They also participate in similar markets in other ISOs across the country. Accordingly, AReM has strong interest in any efforts to revise CRRs or the CRR market design.

On January 12, 2018, AReM provided comments on the December 19th working group meeting and the CAISO's report evaluating the CRR auction.² AReM explained that it supported retaining the current CRR auction and implementing reasonable fixes as soon as practical to improve auction performance. AReM recommended that modifications to improve CRR auction performance be implemented and evaluated *before* considering major structural changes to the CRR market design. In addition, AReM noted that it did not support the proposal of some stakeholders to convert the current CRR auction into one between "willing participants," explaining that such an auction would eliminate liquidity and transparency and impair the ability of AReM's members to use the CRR auction to support physical hedges for contracting.

Specifically, AReM requested that the CAISO consider the following modifications:

1. Adding more frequent auctions with multiple tenors.
2. Eliminating the outage blackout period.

¹ AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

² *CRR Auction Analysis Report*, November 21, 2017.

3. Adding enforcement to current rules requiring Transmission Owners to submit outages.
4. Assigning some or all of the CRR revenue insufficiency to Transmission Owners in recognition that the Transmission Owners' failure to post outages creates the costs.
5. Posting on the CAISO's web site the specific Transmission Owners that failed to comply with the requirements to submit outages for the CRR auction.

AReM has reviewed the CAISO's Track 1 Draft Final Proposal issued February 8, 2018 (Track 1 Proposal), which adopts none of AReM's proposals. AReM supports the CAISO's decision to retain the CRR auction. However, AReM believes the Track 1 proposals are rushed with little analysis to support such major changes, ill conceived, and fail to implement reasonable and workable improvements to the CRR auction. AReM urges the CAISO to reconsider its Track 1 proposals. Following are AReM's comments on each of the CAISO's proposals.

Limiting Allowable Source/Sink Pairs in the Auction – As discussed at the February 13th stakeholder meeting, the CAISO's analysis in support of its proposal to eliminate Gen-to-Gen CRRs and other CRR pathways is flawed. Employing these restrictions will greatly limit the ability of market participants to provide appropriate hedges and increasing the complexity for developing needed pathways. Moreover, the CAISO has provided limited justification for why certain locations are being restricted. While the CAISO claims that elimination of certain pathways does not restrict hedging ability since alternative pathways could be developed, this proposal does not consider the challenges faced in executing alternative options such as increased congestion on pathways that must now be more heavily utilized because of the severe levels of source/sink restrictions. In addition, while the CAISO's analysis discusses why Gen-to-Gen pairs should be restricted, there are many other pathways proposed for elimination with little analysis. For example, no pathways from Pnodes will be allowed under the CAISO's proposal. If these types of pathways are eliminated, this could significantly add to the volatility in CRR pricing owing to restrictions on supply, thereby reducing the value of the hedge and potentially increasing the disparity between CRR revenues and payments. AReM therefore requests that the CAISO remove this proposal from further consideration.

Limiting the Percentage of System Capacity Available in the Annual Allocation and Auction – The CAISO states that a significant amount of the net payment deficiency can be attributed to the annual auction and thus proposes reducing the percentage of system capacity released in the annual allocation and auction process.³ The CAISO further states that its proposed release of 45% of system capacity is comparable to other ISOs.⁴ However, the CAISO admits that its analysis indicates that reducing the release of system capacity to 45% also significantly reduces the percentage of nominated transmission capacity cleared by LSEs in the allocation process (from 49% to 23%).⁵ The CAISO also explained that it was difficult to predict the effect of the 45% limitation on the CRR auction.⁶ These indications are clear signs that unintended consequences can be expected from the CAISO’s proposal. Further research and specific CAISO modeling should be performed before making this significant change.

As discussed at the December 19th meeting, adding additional auctions could address this issue more reasonably. Rather than simply holding one annual auction and reducing the system capacity released for the annual process, the CAISO could add more auctions, increasing the system capacity released in each one as is done in other ISOs. AReM recommends that the CAISO not pursue this proposal and instead add additional auctions with multiple tenors as AReM has previously proposed.

Eliminate Certain Information from CRR Model Disclosure – Instead of repairing the deficiencies in the CAISO CRR modeling, the CAISO’s proposal makes the situation worse by failing to implement recommended fixes and restricting market participant knowledge. As with restrictions in source/sink pairs, this could also increase volatility due to less market knowledge, thereby leading to greater system speculation and defeating the purpose of identifying the value for the hedge. AReM does not support this proposal. Market efficiency improves with more modeling information, not less. AReM requests that the CAISO remove this proposal from further consideration.

³ Track 1 Proposal, pp. 29-30.

⁴ Track 1 Proposal, p. 30.

⁵ *Ibid.*

⁶ *Ibid.*

Outage Reporting Deadline for Annual CRR Process -- This is a small step in the right direction, but as filed in previous comments, the CAISO should do more. Specifically:

- **Elimination of the Blackout Period:** In our view, this is one of the most critical improvements that can be made to improve the accuracy of the modeling. By eliminating up-to-date information, this creates a large market knowledge differential between those that own transmission assets and everyone else. This information difference can skew the amounts allocated and what is available for the auction, leading to greater speculation and making it much more difficult to appropriately hedge.
- **Add an Enforcement Mechanism:** The CAISO proposes a new requirement that Transmission Owners (TOs) must, by July 1 each year, file their maintenance plans for the following year for transmission lines that affect the CRR model. Unfortunately, this proposal carries with it no enforcement mechanism. As the CAISO admits, TOs fail to report more than 50% of their outages on time, which contributes to CRR net payment deficiency.⁷ TOs suffer no downside from failing to comply with the new July 1 reporting obligation. The CAISO should explain why it thinks the new July 1 deadline, without appropriate enforcement provisions, will encourage more compliance than the less than 50% experienced today.

As discussed at the December 19th meeting, other ISOs use methods to encourage outage reporting, such as posting on-line the names of TOs that fail to comply with outage reporting requirements. Also suggested at the December 19th meeting and recommended by AReM in its January 12th comments was to assign at least some of the deficiency costs to the TOs to provide an incentive to comply. At a minimum, the CAISO should propose a non-compliance fee for failure to comply with the July 1 deadline.

In general, the timing of the Track 1 proposals feels quite rushed. Pushing through the proposals so quickly without analytics and system modeling to determine their impacts is an inappropriate way to modify a major CAISO program. In addition, the CAISO staff did not

⁷ Track 1 Proposal, p. 24.

respond to the comments of stakeholders filed on January 12th, and appears to be moving forward with the planned changes regardless of the opinions of those utilizing the auction process. Finally, it was mentioned at the February 13th stakeholder meeting that the Track 2 process will be much longer and could eliminate or modify some of the changes made in Track 1. This seems wholly unnecessary — the CAISO should make the right changes for the system from the outset, instead of instead of having a set of short-term changes with little analytics behind them that may get revised anyway.