

Comments of Boston Energy Trading and Marketing on CAISO's CRR Auction Efficiency Track 1B Final Proposal Addendum

Boston Energy Trading and Marketing ("Boston Energy") appreciates the opportunity to provide comments on the CAISO's CRR Auction Efficiency Track 1B Final Proposal Addendum released on May 25th 2018. After reviewing the changes in depth, Boston Energy can't support the proposal. Irrespective of Boston Energy's position on the addendum, the last minute timing of its release is troubling and not consistent with an open stakeholder process. We urge the ISO to conduct additional rounds of stakeholder discussion to ensure stakeholder comments can be fully considered prior to the proposal heading to the board. Boston Energy's specific comments on the addendum changes are below.

Proposal Fails to Address Concerns Raised Previously by Boston Energy Regarding Planned Outages

CAISO CRR auction efficiency report showed a clear cause and effect relationship between planned outages reported after the tariff reporting deadline and congestion revenue shortfalls. Currently, the transmission owners have no incentive in reporting outages in an accurate and timely manner. While Track 0 and track 1A clarify the reporting requirements, they fail to impose any consequences on the transmission owner shall they continue to report planned outages late. Untimely reported outages significantly contributed to the CRR revenue shortfalls. Boston Energy raised this point in our comments to the Track 1 A draft tariff language¹.

Boston Energy's preferred solution to deal with revenue shortfalls resulting from planned transmission outages is to mimic the shortfall allocation process of the New York ISO where they assigned shortfalls directly associated with transmission outages to the specific transmission owner taking the outage. This approach directly assigns shortfall costs to the specific cause and also avoids the peanut butter approach of allocating shortfalls. This approach also, as discussed below, incentivizes the transmission owners to perform work in less congested periods and get the work done in an expedited manner.

Alternatively, to provide incentives for the transmission owners to report outage accurately and timely, we request the ISO modify the draft final proposal to fully or partially allocate shortfalls associated with planned outages reported after the CAISO tariff deadlines to the specific transmission owner requesting the outage. Such an approach was discussed during a recent MSC meeting and as mentioned above is currently used by the New York ISO to allocate all shortfalls resulting from planned transmission outages to the respective transmission owner. Per the MSC discussion the adjustment is performed at the end of the month and adjustments are made to the shortfall allocation dollars through the normal settlement cycle.

Modeling outages more accurately in the CRR allocation and auction will reduce over cleared CRRs, and also ensure the transmission capability is being priced correctly in the auction. Currently, the transmission capacity is often under value and hence more CRR flow is allowed on a constraint than the constraint derated limit. Without establishing an appropriate outage reporting practice and compliance enforcement measures, all the new rules proposed by the CAISO to resolve CRR revenue shortfalls are just creating cross subsidization without addressing the root problem.

Proposal Fails to Address the Issue of Over Allocation in the Annual and Monthly Allocation Process

Throughout Track 0, Track 1A, and now Track 1B the ISO fails to address the problem and financial impact of over allocating CRRs in the annual and monthly allocation process. The allocation process awards CRRs to Load Serving

¹ <http://www.caiso.com/Documents/BostonEnergyComments-CongestionRevenueRightsAuctionEfficiencyTrack1ADraftTariffLanguage.pdf>

Entities (LSEs) for free based on historical delivery paths to hedge congestion risk. However, when the transmission path is derated, the physical flow on the path will also be reduced in the day-ahead market. Since allocated CRRs are provided at no cost to the LSEs and are intended to hedge, physical delivery, the LSEs do not need the allocated CRR amount to hedge. Rather, they only need the derated amount to hedge physically delivered energy. Therefore, Boston Energy requests the ISO modify its shortfall proposal to account for allocated CRRs awarded above actual system capability before distributing shortfalls to CRRs purchased through the auction

Specifically, if the amount of allocated CRRs awarded in the annual and monthly auction exceeds the actual system capability used in the day-ahead market, the ISO should first prorate the amount of allocation to the derated limit before allocating the CRR revenue shortfalls to CRR holders (both auction and allocated). For example, assume the annual allocation is 150 MWs, and the monthly auction is 50 MWs for a radial path with capacity equals 200 MWs. In the day-ahead market, the constraint is derated to 100 MWs. The ISO's proposal would pay 50% in congestion payments $[100/(150+50)]$ to CRR holders.

In contrast, if the 150 MWs of allocated CRRs is first prorated to 100 MWs, the ISO would pay 67% $[100/(100+50)]$ of the day-ahead price of congestion for CRRs purchased in the auction and pay 44% $[(100/150)*(100/(100+50))]$ of the day-ahead price of congestion for allocated CRRs. Note that the over allocated CRRs are 50 MWs (150-100). The over allocation creates a shortfall in the balancing account to pay the LSEs, so from the LSE's perspective the net CRR payment is zero with 50 MWs of CRR revenue shortfall charge offset by 50 MWs of allocated CRR payments. Therefore, the over allocated CRR does not impose net charges to the LSEs. That is why the proposal needs to differentiate over allocated CRRs and over auction CRRs in allocating shortfalls.

Proposal Fails to Account for the Net Portfolio Impact on Constraints with Shortfalls

The addendum changes the shortfall allocation from a net CRR portfolio basis to a prevailing flow only CRR basis. This is a significant difference from the previous proposal which Boston Energy does not support. If this change moves forward it will adversely impact market efficiency by discouraging further CRR holders willingness to offer valuable counterflow CRRs in the auction. Not allowing netting of a CRR portfolio on a constraint by constraint basis will hinder CRR holders from creating a portfolio where they want to hedge a specific congestion risk but want to keep a neutral position to another constraint, because shortfall risk still exists for the neutral position. This will further reduce CRR market liquidation, and ultimately reduce the nodal market efficiency. This change does not follow cost causation principles because it assigns shortfall costs to a market participant, that has neither intent nor factual contribution to CRR revenue shortfall by keeping a neutral position.

In addition, the proposal to allocate shortfalls to prevailing flow, but not on a portfolio basis is inconsistent with the CRR clawback rule, where the criteria is performed on a portfolio basis. Boston Energy finds it perplexing that while the CAISO properly added the results of the CRR clawback rule to the final shortfall allocation formula, it failed to apply the same net portfolio impact assessment methodology to shortfall allocations. Inconsistency in market design often results in gaming opportunity and loss in market efficiency. We urge the ISO to resolve this inconsistency and reincorporate portfolio netting, by constraint, into the proposal sent to the Board in late June.

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