California ISO

Attachment A

Stakeholder Process: Congestion Revenue Rights Auction Efficiency

Summary of Submitted Comments

Stakeholders submitted four rounds of written comments to the ISO under the congestion revenue rights auction efficiency stakeholder initiative on the following dates:

- Round One (comments following April 2017 analysis scoping working group), 05/01/17
- Round Two (comments following release of analysis report), 12/14/17
- Round Three (comments following December 2017 working group), 01/12/18
- Round Four (comments on draft final proposal), 02/28/18

Stakeholder comments were received from: Appian Way, Alliance for Retail Energy Markets (AReM), Boston Energy Trading and Marketing (Boston Energy), Calpine Energy Solutions, California Department of Water Resources (CDWR), California Public Utilities Commission (CPUC), DC Energy, Department of Market Monitoring (DMM), Energy Users Forum (EUF), Financial Marketers Coalition (FMC), Load Serving Entities in Support of Market Efficiency and the CRR Auction (LSE-CRR Auction Supporters), Marin Clean Energy (MCE), Northern California Power Agency (NCPA), NRG Energy, Office of Ratepayer Advocates (ORA), Pacific Gas & Electric Company (PG&E), Powerex, Southern California Edison (SCE), San Diego Gas & Electric Company (SDG&E), Six Cities, Silicon Valley Power (SVP), Valley Electric Association (VEA), Vitol, Inc., Western Power Trading Forum (WPTF)

Stakeholder comments are posted at:
http://www.caiso.com/informed/Pages/StakeholderProcesses/CongestionRevenueRightsAuctionEfficiency.aspx

Other stakeholder efforts include:

- Working group, 04/18/17
- Market Performance and Planning Forum analysis update, 05/16/17
- Market Performance and Planning Forum analysis update, 07/18/17
- Working group, 12/19/17
- Stakeholder meeting, 02/13/18

Comments of following Market Participants	Limit allowable source and sink pairs in the auction	Create annual outage reporting deadline for annual congestion revenue rights process
Appian Way	Opposes. Concerned proposed restrictions eliminate the possibility to offer counter-flow congestion revenue rights. Concerned management's proposal will hinder a participant's ability to manage its congestion exposure granularly making it much harder if not impossible for market participants to hedge specific localized congestion risk.	No position.
Alliance for Retail Energy Markets	Opposes. Concerned management's proposal will hinder a participant's ability to manage its congestion exposure granularly making it much harder if not impossible for market participants to hedge specific localized congestion risk.	Supports.
Boston Energy Trading and Marketing	Opposes. Concerned management's proposal will hinder a participant's ability to manage its congestion exposure granularly making it much harder if not impossible for market participants to hedge specific localized congestion risk.	Supports.

Calpine Energy Solutions	Opposes. Concerned management's proposal will hinder a participant's ability to manage its congestion exposure granularly making it much harder if not impossible for market participants to hedge specific localized congestion risk. Concerned management's proposal will decrease the ability of financial market participants to provide a load-serving counterparty with the lowest possible hedge cost.	Supports.
California Department of Water Resources	Supports.	Supports.
Energy Division Staff, California Public Utilities Commission	Opposes. Concerned management's proposal does not result in a congestion revenue rights auction between willing counterparties.	Opposes. Concerned management's proposal does not result in a congestion revenue rights auction between willing counterparties.
DC Energy	Opposes. Concerned management's proposal will hinder a participant's ability to manage its congestion exposure granularly making it much harder if not impossible for market participants to hedge specific localized congestion risk. Concerned management's proposal will increase the cost of hedging for maintenance, forced outages, fuel supply risk, weather deviations, and mid-year forward contract expirations.	Supports.

Department of Market Monitoring	Opposes. Concerned that management's proposal may only have moderate effects on auction revenue shortfall.	No position.
Energy Users Forum	Supports.	Supports.
Financial Marketers Coalition	Opposes. Concerned management's proposal will hinder a participant's ability to manage its congestion exposure granularly making it much harder if not impossible for market participants to hedge specific localized congestion risk. Concerned management's proposal will increase the cost of hedging for maintenance, forced outages, fuel supply risk, weather deviations, and mid-year forward energy contract expirations.	Supports.
Load Serving Entities in Support of Market Efficiency and the CRR Auction	Opposes. Concerned the node pairs the ISO proposes to eliminate from the CRR auction currently allow their generation counterparties to manage risks and therefore provide a potentially lower cost energy supply.	Supports.

Marin Clean Energy	Supports.	Supports.
Northern California Power Agency	Supports.	Supports.
NRG Energy	Opposes. Concerned restricting allowable node pairs will make it more difficult for market participants to hedge congestion delivery risk therefore increasing costs.	Supports.
Office of Ratepayer Advocates	Supports.	Supports.

Pacific Gas & Electric Company	Supports.	Opposes.
Powerex	Supports.	Supports.
Southern California Edison	Opposes. Concerned management's proposal does not result in a congestion revenue rights auction between willing counterparties.	Opposes. Concerned management's proposal does not result in a congestion revenue rights auction between willing counterparties.
San Diego Gas & Electric Company	Opposes. Concerned management's proposal will only minimize the amount of congestion revenue rights auctioned and will not increase auction efficiency, because it does not ensure that constraints that are normally binding in the day-ahead market will be binding in the annual auction.	Opposes. Concerned management's proposal would increase cost of transmission maintenance imposed on ratepayers.
Six Cities	Supports.	Supports.

Silicon Valley Power	Opposes. Concerned management's proposal does not result in a congestion revenue rights auction between willing counterparties.	Opposes. Concerned management's proposal does not result in a congestion revenue rights auction between willing counterparties.
Valley Electric Association	Opposes. Concerned that the node pairs management's proposal would eliminate currently allow their generation counterparties to manage risks and therefore provide a potentially lower cost energy supply.	Supports.
Vitol, Inc.	Opposes. Concerned management's proposal will hinder a participant's ability to manage its congestion exposure granularly making it much harder if not impossible for market participants to hedge specific localized congestion risk. Concerned that the node pairs management's proposal would eliminate currently allow its generation counterparties to manage risks and therefore provide a potentially lower cost energy supply.	Supports.
Western Power Trading Forum	Opposes. Concerned that management's proposal will hinder a participant's ability to manage its congestion exposure granularly making it much harder if not impossible for market participants to hedge specific localized congestion risk. Concerned that the node pairs management's proposal would eliminate currently allow their generation counterparties to manage risks and therefore provide a potentially lower cost energy supply.	Supports.

Management Response	Management proposes to continue to support the core purpose of congestion revenue rights as a means to provide hedges for supply delivery. It proposes to limit the allowable source and sink pairs to only those associated with supply delivery ("delivery pairs"). This proposal strikes a balance between providing sufficient flexibility for nonparticipating transmission owner load serving entities, generator owners, and marketers the capability to obtain hedges for supply delivery while not allowing the opportunity for completely strategic bidding aimed at exploiting the congestion revenue rights auction. Management expects the current non-delivery pair transaction activity required for hedging for supply delivery to shift to the proposed allowable source and sink pairs, increasing auction competitiveness while providing sufficient opportunity to market participants to obtain hedges. Management's proposal allows sufficient opportunity for hedging supply delivery because the allowable pairs source at all types of supply points and sink at the types of nodes that supply market participants deliver supply to. Management understands that market participants may no longer be able to target specific constraints and thereby gain low-cost hedging options, however, the very concern that the proposal addresses is the fact that market participants currently obtain certain congestion revenue rights at significant discounts to eventual payouts. Analysis of the congestion revenue rights auction revenue deficiency revealed that congestion revenue rights that do not have proposed sources and sinks have historically accounted for 81 percent of the congestion revenue right payments that exceed auction revenue. Market participants purchased these rights for 38 cents on the dollar. In contrast, market participants purchase congestion revenue rights that do have the proposed sources and sinks for 74 cents on the dollar.	Transmission outage information affects more than just the network topology that the ISO uses in its allocation and auction process. The ISO relies on the outage information to determine appropriate constraints and contingency conditions to monitor in the allocation and auction. If the conditions considered in the annual process are far different from the actual conditions, auction revenues collected in the annual process will not be enough to cover eventual payouts, leading to higher auction revenue deficiency associated with congestion revenue rights awarded in the annual process. Analysis showed that almost half of the auction revenue deficiencies are associated with congestion revenue rights that the ISO awards in the annual process. By collecting outage information in time for the annual process, the ISO will better align the amount of transmission capacity released as congestion revenue rights in the annual processes with the amount of transmission capacity that will ultimately be available.