



Public Advocates Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102
Tel: 415-703-1584
www.publicadvocates.cpuc.ca.gov

October 23, 2019

The California Independent System Operator
250 Outcropping Way
Folsom, CA 95630
initiativecomments@caiso.com

Subject: **Comments of the Public Advocates Office on the California Independent System Operator’s Draft 2020 Roadmap and Annual Plan**

INTRODUCTION

The Public Advocates Office hereby submits these comments on the California Independent System Operator’s (CAISO) Draft 2020 Roadmap and Annual Plan (Roadmap). In particular, the Public Advocates Office responds to the statements in the Roadmap and in the corresponding presentation where the CAISO committed to not including any initiatives related to Congestion Revenue Rights (CRRs)¹ in 2020, and instead will “monitor CRR market performance.”²

DISCUSSIONS AND RECOMMENDATIONS

1. The Public Advocates Office Recommends that the CAISO Not Preclude Any 2020 CRR Initiatives

The Draft 2020 Road Map and Annual Plan states that “[a]nalysis shows enhancements implemented last year [to the CRR market] have resulted in market improvement with some

¹ “Congestion revenue rights (CRR) are financial instruments, made available through the CRR allocation, CRR auction and Secondary Registration System, that enable CRR holders to manage variability in congestion costs based on locational marginal pricing.” (Congestion Revenue Rights. The California Independent System Operator. Available at <http://www.caiso.com/market/Pages/ProductsServices/CongestionRevenueRights/Default.aspx>).

² 2020 Draft Three-Year Policy Initiatives Roadmap and Annual Plan. The California Independent System Operator. P. 18. September 30, 2019.

mixed results.”³ The “enhancements” refer to the recently adopted CRR reform initiatives undertaken by the CAISO and approved by the Federal Energy Regulatory Commission (FERC).⁴ These reforms were meant to address the persistent and substantial difference between the revenue collected by the CAISO in the regular CRR auction and the payouts that the CAISO made to holders of CRR contracts. In its 2018 Annual Report, the CAISO’s Department of Market Monitoring (DMM) stated that

“Payouts to congestion revenue rights (CRRs) sold in the [CA]ISO’s auction exceeded auction revenues by over \$131 million in 2018. These losses are borne by transmission ratepayers who pay for the full cost of the transmission system through the transmission access charge (TAC). These losses now total over \$866 million since the start of the congestion revenue rights auction in 2009.”⁵

The CRR reform initiatives, which the FERC approved in late 2018 and which included limiting the eligible sources and sinks⁶ between which CRRs could be purchased and changing the payout structure for CRR holders,⁷ seemed to limit the CRR revenue shortfall for ratepayers. According to DMM, the CRR revenue shortfall that ratepayers are responsible fell to \$6 Million in Quarter 2 (Q2) 2019, compared to a \$17 Million loss in Q2 2018.⁸ While this changes has resulted in improvements in the short-term (Q1 and Q2 2019), we have not yet seen how the reforms impact Quarters 3 and 4 (Q3 and Q4). In the past 3 years, the CRR market exhibited the greatest discrepancy between payments to CRR holders and CRR auction revenue during Q3 and

³ *Ibid.*

⁴ Descriptions of these reforms are available at <http://www.caiso.com/informed/Pages/StakeholderProcesses/CongestionRevenueRightsAuctionEfficiency.aspx>.

⁵ 2018 Annual Report on Market Issues and Performance. Department of Market Monitoring. P. 1. May 2019.

⁶ Sources and sinks are the nodes on the grid between which CRRs are purchased. Energy is injected at the source and consumed at the sink. The price of the CRR contract is based on the difference between the locational marginal price at the source and at the sink. (Overview of Congestion Revenue Rights in the New California Energy Market. Presentation by Scott A. Jercich of the California Independent System Operator. March 21, 2006. Available at <https://www.caiso.com/Documents/CRROverviewPresentation.pdf>).

⁷ Congestion Revenue Rights Auction Efficiency – Track 1B Presentation. The California Independent System Operator. October 31, 2018. Available at <http://www.caiso.com/Documents/Presentation-CongestionRevenueRightsAuctionEfficiencyTrack1B.pdf>.

⁸ Q2 Report on Market Issues and Performance. Department of Market Monitoring. P. 1. September 5, 2019. Available at <http://www.caiso.com/Documents/2019SecondQuarterReportonMarketIssuesandPerformance.pdf>.

Q4.⁹ The CRR auction revenue shortfall grew from \$1.5 million in Quarter 1 (Q1)¹⁰ of 2019 to \$6 Million in Q2 of 2019. Given the possibility that this trend continues, the Public Advocates Offices recommends that the CAISO reserve the option of launching a CRR initiative in 2020 to address this revenue shortfall.

The Public Advocates Offices urges the CAISO to avoid CRR revenue shortfalls and explore all available market solutions¹¹ that could be implemented in 2019 and 2020. Therefore, since complete information on the effectiveness of current reforms is not yet available, and to ensure that ratepayers are not burdened with unnecessary costs, the CAISO should include in its Policy Initiative Roadmap, the possible need for new CRR initiatives to address CRR revenue shortfalls.

Please contact Steven Shoemaker at Steven.Shoemaker@cpuc.ca.gov or (415) 696-7330 with any questions regarding these comments.

/s/ Chloe Lukins

Chloe Lukins

Program Manager

Cc: Steven Shoemaker, Public Advocates Office
Danielle Dooley, Public Advocates Office
Joseph Abhulimen, Public Advocates Office

⁹ Q2 Report on Market Issues and Performance. Department of Market Monitoring. Figure 1.37. P. 51. September 5, 2019. Available at <http://www.caiso.com/Documents/2019SecondQuarterReportonMarketIssuesandPerformance.pdf>.

¹⁰ Q1 Report on Market Issues and Performance. Department of Market Monitoring. P. 1. June 28, 2019. <http://www.caiso.com/Documents/2019SecondQuarterReportonMarketIssuesandPerformance.pdf>.

¹¹ DMM has proposed “Replac[ing] [the current CRR market structure] with a market for hedges based on transactions between willing buyers and sellers.” (Addressing revenue inadequacy does not resolve ratepayer losses from flawed CRR auction design. Presentation by Ryan Kurlinski of the Department of Market Monitoring. P. 7. December 19, 2017. Available at <http://www.caiso.com/Documents/Presentation-RyanKurlinskiDMM-Dec192017.pdf>).