CRR Issues and Responses

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CRRs: Motivation and Purpose

- Originally developed in US as an alternative to physical transmission rights
  - Physical rights can be used to withhold transmission capacity and are difficult to define.
  - Financial rights intended to provide the economic equivalent of "toll free" usage of a network.
- FTRs and open access (our views)
  - Open access means more than just spot purchases
  - Open access means ability to match non-firm (spot) transactions with some kind of forward commitment
    - Matching delivery pairs – yes. Non-delivery pairs – no.
- Reliability, efficiency, and competitiveness of power markets depends upon robust forward markets
  - Given structural changes underway in CA right now, we should be cautious about changes that might further disrupt forward trading and push volume to short term trades.

CRRs: theory meets reality

- Revenue adequacy depends upon *feasibility*
  - But real networks are constantly changing. Many outages and contingencies.
    - FTRS that are feasible on Monday may not be on Tuesday
- This creates a tension between attributes
  - Access: Sell as many FTR as feasible
  - Hedge Quality: The payments of an FTR
  - Length: Guarantee FTR far into the future
  - Financing: Cover FTRs without taxing network users
  - Simplicity: Both understandable and reproducible payment calculations.
  - Liquidity: Instruments are not so complicated and bifurcated that they are difficult to buy or sell.

CRRs and Hedging Quality

- A fully firm CRR is a high quality hedge
  - But can result in ISO selling more than are feasible (at least some of the time)
  - Selling more than feasible is beyond open access, it is subsidizing the hedging function.
    - Even so, may still be in societies interest (public insurance)
- Reducing CRR payments consistent with selling available transmission capacity
  - But CAISO proposal places full risk of outage on rights using specific constraints
  - Key question: should CRRs hedge only nodal price risks or should they hedge network outage risks as well?

Concerns with 1B proposal

- Targeted reductions may significantly devalue CRRs as hedging instruments
  - May not be time to provide a full quantitative analysis of how much risk this introduces
  - We cannot at this time conclude this will not significantly limit the value of all CRRs
  - Specific CRRs could face very large payment uncertainty. Could be a significant risk, particularly for smaller LSEs.
- Targeted payment reductions could also create strange incentives
  - A TO would be in a position to know how specific outages influence CRR payment streams.
- If 1B proposal is motivated by auction revenue shortfalls, more direct options may be preferred

Recommended Modifications

- Reduce payments to CRRs to guarantee revenue adequacy, but allocate shortfall pro-rata to all (positive revenue) CRRs
  - Prevents over selling of capacity
  - Shares risks of specific line outages
- Share cost of RI shortfalls due to outages between TOs and CRR holders
  - Proportion TBD
- Reduce auctioned capacity (to say 70%)
  - Does not have to be tied to reduction in allocation
- Introduce minimum sale price to CRR auction