

<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
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To Whom It May Concern:

Silicon Valley Power (SVP) appreciates the opportunity to provide the CAISO the following comments in response to the CAISO November 19, 2014, revised draft 2015 stakeholder initiatives catalog. SVP focuses on the sections that address the issues raised in the CAISO's Department of Market Monitoring (DMM) Whitepaper, dated October 6, 2014, titled "Allocating CRR Revenue Inadequacy by Constraint to CRR Holders," and the recently published CAISO Q3 2014 Report on Market Issues and Performance (Q3 Report). SVP is concerned that the relative ranking of this initiative in the stakeholder catalog may result in the CAISO taking no action, despite the substantial amounts of unreasonable costs incurred, and despite the availability of solutions that should be relatively easy to implement, potentially without Tariff or BPM changes.

A critical point that SVP took away from the DMM Whitepaper and Q3 Report is the CRR auction process and auction results have been a major driver of the last year's CRR revenue inadequacy, which amounted to \$162 million in the first nine months of 2014. (See Q3 Report at 41) The identified cause of CRR revenue inadequacy is a timing difference between network modeling and information available before the CRR auction. Non-Load Serving Entities (Non-LSEs) obtaining auction CRRs have an information advantage, using new outage information that is not reflected in the CRR Full Network Model (CRR FNM) when they participate in the CRR auction. The information advantage exacerbates the underfunded CRRs, the costs of which are allocated to CRR holders who have measured demand. The problem is summarized well in the Q3 Report:

The timing of the congestion revenue rights auction process creates opportunities for entities to target reported outages and modeling discrepancies between the congestion revenue rights network model and the day-ahead market model. Outages reported after a certain deadline cannot be included in the congestion revenue rights model. However, these outages will be included in the day-ahead market model. Therefore, any outages reported during the roughly month-long period after the outage reporting deadline but before the congestion revenue rights auction closes will create modeling discrepancies that can be actively targeted by congestion revenue rights auction participants.

Q3 Report at p. 42.

A straightforward solution to the timing problem would be for the CAISO to implement, prior to

the monthly CRR Auction process, an additional refreshing/updating of its CRR FNM to reduce the potential for market participants to incorporate key outage information after the last incremental release of the CRR FNM in the CRR Allocation process. In the current monthly CRR Allocation and CRR Auction processes, there is only one instance where the CRR FNM is incrementally released – approximately three days before the Tier 1 allocation market is opened. SVP suggests that a second incremental CRR FNM release can take place shortly before opening the market for auction bids in the CRR Auction process (after the posting of the Tier 2 allocation results). The additional CRR FNM release would include new system outage information that becomes known between the time when the CAISO issues the release before the allocation process, and the time when the auction occurs. The additional incremental CRR FNM release will restrict opportunities for entities to target reported outages and modeling discrepancies between the CRR network model and the Day-Ahead market model, and will better align the CRR FNM with the DA Market FNM, consistent with CAISO Tariff Section 36.4<sup>1</sup>. This change would not require a separate market participant initiative process, but instead could be implemented immediately consistent with the language in CRR BPM Section B.1.1.5, that allows the CAISO to announce adjustments to the CRR FNM prior the monthly CRR Allocation and CRR Auction.<sup>2</sup> SVP believes that implementing this change will not disadvantage any involved party and will result in the allocation and auction of CRRs in a more efficient manner.

A separate solution would be to eliminate the tie point capacity set-aside for the CRR auction. This would reduce the amount of awarded CRRs on likely revenue-insufficient CRR source-sink paths, and would also result in an auction where participants end-up paying/bidding for CRRs at their expected value – between willing auction counterparties taking complementary positions. SVP acknowledges that this second solution might require a change to the CAISO Tariff.

In summary, SVP believes that CRR Auction process enhancements can be made that will significantly reduce the amount of CRR revenue inadequacy – so less revenue inadequacy will be dispersed to the market (regardless of the methods of dispersion, discussed in the white paper). SVP also believes that if the CAISO is going to pursue a change in the Tariff to allocate CRR Revenue inadequacy (by constraint) to CRR Holders, it must concurrently improve its CRR FNM modeling to better align with the DA Market FNM, pursuant to CAISO Tariff Section 36.4.

Thank you for the opportunity to submit comments on this issue.

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<sup>1</sup> CAISO Tariff Section 36.4 “When the CAISO conducts its CRR Allocation and CRR Auction, the CAISO shall use the most up-to-date DC FNM which is based on the AC FNM used in the Day-Ahead Market....”

<sup>2</sup> Alternatively, the CRR BPM could be revised as appropriate.