

Western Power Trading Forum Comments on CAISO CRR Auction Efficiency Workshop and Stakeholder Process

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WPTF appreciates the ability to submit these comments in response to the [CAISO’s Draft Final Proposal](#) (DFP) and stakeholder meeting discussion. WPTF offers the following comments:

The CAISO’s Proposal Should Be Limited to Efficiency-Enhancing Items

The ISO has offered a number of “Track 1” policy changes in the Draft Final Proposal and is promoting implementation of these items on a very fast track. According to the ISO, these changes are proposed on this expedited timeline in order to implement them for the 2019 annual CRR processes. The ISO is conducting these policy considerations as part of its CRR Auction Efficiency stakeholder process. According to WPTF’s analysis and perspective, several of the elements of the proposal do not, in fact, support auction efficiency and in fact run counter to it. These include the ISO’s proposal to limit auction node-pair eligibility, and the ISO’s two proposals to limit transparency to CRR and other market participants and stakeholders. These are discussed in more detail below.

In particular, the ISO’s proposal to limit participation to only certain node-pairs reduces CRR market functionality, flexibility and openness to a wide set of participants. By doing so, liquidity, and in turn price transparency, is reduced. Note that neither of these outcomes is consistent with the goals of increased auction efficiency.

The Proposal to Limit Permitted Sink/Source Pairs is Counter-Productive to Market Efficiency

The ISO has proposed to restrict source/sink pairs in the auction to those indicated in the ISO’s chart below with a “Y”.

Source	Sink				
	LAPs	GEN	PNODE	TIE	TH
LAPs					
GEN	Y			Y	Y
PNODE					
TIE	Y				Y
TH	Y			Y	

WPTF asserts that this element of the ISO proposal fails to meet the ISO's intention of benefitting CRR auction efficiency as the ISO has characterized for the following reasons:

- **The proposed restriction does not conform with other ISO/RTO approved practices and unnecessarily removes functionality that the market finds useful.** The ISO indicates that most other ISOs/RTOs limit allowable node-pairs to those that are not electrically equivalent. WPTF has supported, and continues to support, eliminating electrically equivalent source-sink pairs as a more direct way of removing from the auction those nodes that are not expected to constrain in the auction. However, the ISO goes far beyond what has been approved by FERC in other ISOs/RTOs in that it eliminates CRR pairs from eligibility which may not be electrically equivalent at all. The ISO has not provided fundamental rationale for why their proposal is appropriate in lieu of simply removing electrically equivalent nodes. The proposed policy would limit the functionality offered to market participants while offering no incremental benefit over simply eliminating electrically equivalent nodes. The ISO suggests that it does not “believe” that participants have any reasonable need for the pairs that it proposes to eliminate, yet participants continue to explain otherwise. LSEs that buy energy want the costs of their hedges arranged by their suppliers to be as low-cost as possible. Sometimes this means a supplier or intermediary finds it beneficial to hedge between two points that the ISO may not see as being in the direct physical generator-to-load delivery path. Similarly, the ISO's restrictions on source-sink pairs seem focused on allowing only specific source-to-sink physical delivery hedges, while eliminating a broader use of CRRs to hedge congestion – undoing years of experience with how the market uses CRRs. This seems unduly extreme, especially when the ISO has a superior solution of simply eliminating a participant's ability to bid on electrically equivalent pairs.
- **The CAISO's analysis of presumed benefits of removing these node-pairs is flawed.**¹ The ISO performed a situational analysis using the 2018 Q3 auction, removing the “non-

¹ WPTF indicates that the analysis is likely flawed. Despite requests for such, the ISO has not provided the full results of its analysis. The full results would allow stakeholders to see the full impacts of the ISO's analysis.

delivery pair” CRRs. The ISO reports that this third quarter of the annual CRR process cleared 83,000 MW whereas the counterfactual cleared a much lower quantity of 22,000 MW, and that the average auction price increased from \$113/MW to \$117/MW. The ISO did not report a comparison of the overall auction value, but it most certainly decreased given 61,000 MW (see paragraph 2 on p. 35 of DFP) of competitively awarded transactions were removed. It is unclear why the ISO chose to focus on average payments when the objective function of the market is to maximize bid-based revenue and thereby removing awarded transactions cannot by definition lead to higher overall auction value. In addition, there is no evidence provided that the removal of these competitively awarded transaction carried out the ISO’s objective of reducing net payment deficiency. Certainly, the results that the ISO published from its 2018 Q3 test-case do not demonstrate that this policy would improve the net CRR payout situation; the analysis without factoring the day-ahead payouts cannot make such a demonstration.

In fact, based on requests from stakeholders such as WPTF since the ISO’s stakeholder meeting, the ISO produced the specific results of their counter-factual 2018 Q3 analysis. The results show that auction revenues with the non-delivery pairs removed were only \$3.2 million², relative to the full-functionality actual market revenues that were collected of \$9.4 million³. While it is not possible to determine the net CRR payment deficiency until the 2018 Q3 day-ahead market has passed, this significant reduction in auction revenues was not addressed by the ISO and does not at this point support the suggestion of the ISO that the market with the non-delivery pairs removed is necessarily more efficient.

² Published results of the CAISO’s 2018 Q3 analysis

(<http://www.caiso.com/Documents/SupplementtoDraftFinalProposal-2018Season3AuctionSimulationResults.xlsx>) show a net CRR sales revenue (quantity of each sale X price of cleared CRR, summed over all sales) of \$3.2 million.

³ The Draft Final Proposal reports that the actual auction cleared 83,000 MWs of CRRs at an average price of \$117/MW, pp. 35 – 36.

The ISO's presentation of this limited analysis is not consistent with the actual results and certainly should not be used to demonstrate that such an auction change is beneficial.⁴

- **The CAISO's rationale that gen-to-gen nodes are in some way hindering parties' ability to receive capacity from the system is flawed.** The ISO fails to acknowledge that gen-to-gen transactions were awarded in a competitive auction which by design awards the highest-valued CRRs. In this way, it should not matter to the ISO whether the MWs were cleared in the form of gen-to-gen CRR pairs or ISO-deemed "delivery path pairs." Indeed, these gen-to-gen nodes placed a higher value on transmission capacity and thereby were awarded. It is counterintuitive and obviously flawed to claim this is a less competitive outcome. Take as an example a case in which a constraint exists on the system and a gen-to-gen bid has a 1-to-1 relationship with flow on that constraint. A cleared gen-to-gen bid for 10MW would then hedge 10MW of that congestion. On the other hand, a gen-to-hub bid may only have a 10% relationship with the constraint, and a cleared bid for the gen-to-hub for 100MW would then hedge 10MW of that congestion. Assuming the bids have the same commensurate bid-in value the auction revenues produced on the constraint for the two simulations are the same, but the average price calculation would be different. This does not reflect any more value being made available to the users or that competition increased. Rather the difference is due to the clearing properties of CRRs in a network of elements. It is flawed to conclude that clearing more, or more of a certain type of CRRs, led to an overall better outcome. Clearly this is a sub-standard metric for auction performance or competitiveness, as is average CRR clearing prices. Instead, the relevant metric is the impact to overall cleared auction value, which again cannot increase by removing competitively awarded transactions. The auction value results subsequently released by the ISO contradict the ISO's claims.

⁴ Further, even if the ISO had perfect forward information about day-ahead outcomes, its analysis is a narrow slice that is not statistically significant.

The Proposal to Limit Release of Outage Information is Counter-Productive to Market Efficiency

The ISO has proposed to withhold information about which constraints and contingencies it will enforce in the CRR process.⁵ The ISO should abandon this aspect of its proposal for the following reasons:

- **Removing information does not add to market efficiency.** The ISO claims it is addressing CRR auction efficiency, but removing transparency does nothing to achieve CRR market efficiency. To the contrary, dissemination of such underlying model information increases market efficiency.
- **The CAISO's proposal to remove transparency harms all participants.** To penalize all market participants by withholding market information is no antidote to the concern that some market participants may be participating and profiting using such information.
- **The CAISO is mis-informed in its premise that there is no legitimate use of transparent CRR market-clearing prices.** The ISO claims that CRR participants should only care about the Day-Ahead result to value their CRR products.⁶ Commercial realities do not support a participant paying tens or hundreds of thousands of dollars or more on CRRs and then having no legitimate basis for valuing them in advance of the day ahead market. Underlying economics would support that forward market participants be able to value a CRR product when it is procured, be able to consider liquidating it in a subsequent market, and be able to rationalize it with day-ahead prices. Forward market participants play a useful role in rationalizing or converging these forward markets with the day-ahead markets. To build a policy upon a philosophical belief that participants should see no value in understanding the CRR annual and monthly clearing prices – including what

⁵ See slide 14 of the ISO's [CRR Auction Efficiency Track 1 DFP Presentation](#).

⁶ For example, in its DFP the ISO writes: "Congestion revenue rights are intended for hedging day-ahead market congestion exposure. Therefore, bidding activity should be based on expectations of day-ahead market results, not on how the CAISO chooses to model information in the auction." (p. 27)

drives those clearing prices – is antithetical to the economic principle that in a fair and efficient market, participants have the most complete information available, which of course includes information from previous market outcomes.

- **The CAISO's proposal will mask its own inconsistencies on how constraints are enforced.** One of the drivers of the net-negative CRR payouts is the fact that the ISO is enforcing constraints in the Day-Ahead market that it does not enforce in the CRR auction. Eliminating the release of information about the constraints the ISO enforces in the CRR auction will shield the ISO from any accountability regarding the accuracy of its constraint enforcement between the DA and the CRR process. Furthermore, it could result in errors in the market to go undetected. CRR participants should continue to have insight to the market models in order to protect themselves from these errors that might go otherwise undetected. The lack of transparency in this regard is a source of artificial risk and can erode the confidence in the market.

Outage Reporting Needs to be Enforced

The ISO has proposed to narrow and move up the timeline on outage reporting. This proposed change will have no value if the Transmission Owners (TOs) do not comply. The ISO should include in its proposal further details about the consequences of non-compliance. The ISO has not proposed financial consequences for inaccurate or late outage reporting despite significant evidence that outage reporting deficiencies have resulted in significant net CRR payments. The ISO's proposal should include an ongoing mechanism to report on the degree to which TOs are meeting or violating the Tariff outage requirements. In Track 2 of the CRR Auction Efficiency initiative, the ISO should implement a mechanism for recovering the consequences of such costs from TOs.

WPTF Does Not Oppose Proposed Changes to Release Quantities in this Near-Term Track 1

WPTF has previously expressed support for alternative market designs, such as ERCOT's design in which more long-term capacity is released as the year capacity through its balance-of-year markets. Given the short timeline of the ISO's Track 1, WPTF understands that it may be difficult for the ISO to implement modifications to affect such a change. The reduction in annual quantities released is an easy way to reduce the contribution to revenue inadequacy driven by imperfect advance information. As a result, WPTF is not opposed to this element of the proposal. In Track 2, WPTF encourages the ISO to consider alternative means that may allow for the maximum ability for parties to hedge while accomplishing the comparable benefits of releasing additional system CRR capacity as the operating month nears.

WPTF appreciates the ISO's consideration of these comments.