

COMMENTS OF ENERGY DIVISION STAFF ON THE STRAW PROPOSAL FOR CONGESTION REVENUE RIGHTS AUCTION EFFICIENCY, TRACK 1B

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COMMENTS

Energy Division staff (“ED staff”) appreciates CAISO’s continued focus on reducing net revenue deficiencies in the CRR construct and understands that the Track 1B proposal (the “Proposal”) addresses an aspect of these deficiencies – high payouts to CRRs due to modeling differences between the CRR auctions and day ahead markets – that is separate from, but related to, the issues addressed in the earlier Track 1A proposal.¹ In particular, ED staff acknowledges CAISO’s proposed new method for allocating congestion revenue deficiencies after the day ahead market run, which CAISO describes as follows:

A targeted reduction of congestion revenue rights payouts on a constraint by constraint basis is equitable among all categories of market participants because each congestion revenue rights holder pays shortfalls associated with their own congestion revenue rights.²

This aspect of the Proposal is a commendable step towards ensuring that California ratepayers do not pay costs incurred for CRRs held purely for speculative purposes or that do not otherwise hedge the congestion risks that load serving entities face in connection with their service obligations. ED staff agrees with CAISO that, were the Proposal to move forward, CAISO should not allocate surplus CRR revenues in the same manner as revenue deficiencies.³

Yet despite addressing net revenue deficiencies, the Proposal does not consider numerous parties’ support for a framework of willing counterparties⁴ in any substantive way. In general, ED staff observes

¹ Congestion Revenue Rights Auction Efficiency Track 1B Straw Proposal at 5

² Ibid. at 27

³ Ibid. at 29

⁴ Recent examples include Energy Division Staff’s Track 1 comments at 2-3 (available at Energy Division Staff’s comments at 2, available at <http://www.caiso.com/Documents/CPUCComments-CongestionRevenueRightsAuctionEfficiency-DraftFinalProposalTrack1.pdf>), SVP’s Track 1 comments at 1 (available at <http://www.caiso.com/Documents/SVPComments-CongestionRevenueRightsAuctionEfficiencyTrack1DraftFinalProposal.pdf>), Six Cities’ Track 1 comments at 1-2 (available at <http://www.caiso.com/Documents/SixCitiesComments-CongestionRevenueRightsAuctionEfficiencyTrack1DraftFinalProposal.pdf>), SCE’s Track 1 comments at 1 (available at <http://www.caiso.com/Documents/SCEComments-CongestionRevenueRightsAuctionEfficiencyTrack1DraftFinalProposal.pdf>), PG&E’s Track 1 comments at 1-2 (available at <http://www.caiso.com/Documents/PG-EComments-CongestionRevenueRightsAuctionEfficiencyTrack1DraftFinalProposal.pdf>), ORA’s Track 1 comments at 1-3 (available at <http://www.caiso.com/Documents/ORACComments-CongestionRevenueRightsAuctionEfficiencyTrack1DraftFinalProposal.pdf>), and MCE’s Track 1 comments at 1-2

that the CAISO's response to the "willing counterparties" proposal in the proceeding has largely focused on "why it would not work" instead of considering "how stakeholders could make it work." The Proposal does not clarify that Track 2 of the proceeding would consider such a framework, which ED staff interprets as CAISO's rejection of the concept. ED staff is also concerned that, in describing an alternative construct that would reduce CRR quantities prior to the day ahead market as "likely the best solution, at least in the long-term,"⁵ CAISO suggests that "[r]evenue surpluses or shortfalls . . . would be shared among load-serving entities in the same method used today."⁶ ED staff understands that CAISO simply provides this alternative as an example and that, as envisioned, it may also reduce CRR net revenue deficiencies significantly. Yet absent any clear signal from the CAISO that more robust, longer-term solutions already identified by parties will be considered further in this proceeding, ED staff interprets this as another indication that CAISO does not truly intend to alleviate ratepayers' exposure, in the long term, to revenue deficiencies that are not associated with their electric demand.

It is clear that CAISO and several parties are concerned about certain effects of SCE's proposal⁷ for a willing counterparty framework, such as the need for precisely matched counterflow bids to clear CRR sales⁸ and the potential to interrupt non-LSE market participants' ability to hedge supply sinking at trading hubs.⁹ SCE has proposed several solutions to alleviate potential issues, including a bulletin board, multi-stage auctions, or a coordinated exchange.¹⁰ CAISO has rejected these solutions in the current Proposal,¹¹ arguing that "many major policy decisions remain and it is not clear whether these methods would be better than the current congestion revenue rights auction" and that "it would take much more time to develop and implement multi-stage auctions or exchange policies than available in the Track 1B schedule."¹² If this is the case, ED staff recommends that CAISO explore these possibilities further (including any changes to the SCE proposal) rather than rejecting the willing counterparty concept on the basis of timing.

Finally, ED staff notes that although several parties (including DMM) have coalesced around the SCE proposal, it is not the only proposal that addresses willing counterparties in the current proceeding.¹³ ED staff requests that CAISO clarify that its Track 1A and Track 1B proposals are intended as *interim* solutions and that it will consider a comprehensive willing counterparty framework – based on the SCE proposal or an alternative thereto – in Track 2.

(available at <http://www.aiso.com/Documents/MCEComments-CongestionRevenueRightsAuctionEfficiencyTrack1DraftFinalProposal.pdf>).

⁵ *Congestion Revenue Rights Auction Efficiency Track 1B Straw Proposal* at 33

⁶ *Ibid.* at 32

⁷ Southern California Edison, *SCE CRR Proposal*, available at <http://www.aiso.com/Documents/SCEComments-CRR Auction Analysis Report.pdf>.

⁸ *Congestion Revenue Rights Auction Efficiency Track 1B Straw Proposal* at 33

⁹ *Ibid.* at 35

¹⁰ Southern California Edison, *Willing Counterparty*, presentation at the April 10, 2018 Working Group Meeting, p. 4, available at <http://www.aiso.com/Documents/Presentation-EricLittleSCE-Apr102018.pdf>

¹¹ *Congestion Revenue Rights Auction Efficiency Track 1B Straw Proposal* at 33-34

¹² *Ibid.* at 34

¹³ See the Department of Market Monitoring's proposal, *Market Alternatives to the Congestion Revenue Rights Auction*, available at <http://www.aiso.com/Documents/DMMWhitePaper-Market Alternatives CongestionRevenueRightsAuction-Nov27 2017.pdf>

CONCLUSION

ED staff understands CAISO's intent to reduce net revenue deficiencies in the CRR construct through its Track 1B (and earlier Track 1A) proposal. ED staff believes, however, that the current proceeding has not sufficiently considered how an alternative construct based on willing counterparties could work. ED staff requests that CAISO clarify that its Track 1A and Track 1B proposals are intended as interim solutions and commit to rigorous consideration of a willing counterparty framework in Track 2.