

Stakeholder Comments Template

Subject: CRR Auction Analysis Report November 21st, 2017

Submitted by	Company	Date Submitted
<i>Alvin S. Pak – Attorney for Calpine Energy Solutions, LLC</i>	<i>Calpine Energy Solutions, LLC</i>	<i>December 6, 2017</i>

General Comments of Calpine Energy Solutions, LLC (“Calpine Solutions”)

Calpine Solutions is a nonutility load-serving entity operating in seventeen states, including California. Calpine Solutions receives an allocation of annual and monthly CRRs, and also participates in the annual and monthly CRR auctions in order to mitigate the financial risks we and our customers would otherwise face if our portfolio of supply and transmission rights was exposed to unhedged locational price risks. We believe CRRs are an important market instrument and serve their purposes well. In that light, we appreciate the opportunity to comment on the CRR Auction Analysis Report (“Auction Report”) issued November 21, 2017. In providing these comments, Calpine Solutions has taken into consideration that the Department of Market Monitoring (“DMM”) has issued a separate report considering “market alternatives” in which the DMM recommends replacing CRR auctions with some system of voluntary market trading, a recommendation Calpine Solutions strongly opposes.

Calpine Solutions believes the approach taken in the Auction Report is sensible and, generally, that it is supported by the data reflected in the analysis. To a certain extent, however, we would disagree with some of the references ascribing certain trends in bidding activity and auction prices to financial speculation and profiteering – in several instances, the Auction Report traces these potential motives to “emerging” statistical trends and occasional anomalies shown in the data, but Calpine Solutions believes those trends should be investigated further and that those anomalies should be studied in greater detail before the CAISO concludes there are fatal structural flaws or hints of market manipulation in the CRR auction process.

Calpine Solutions agrees with the Auction Report that the CRR auctions are affected by certain technical flaws. As the Auction Report indicates, the alignment between the transmission modeling used in the CRR auction markets and the transmission modeling used in the day-ahead markets should be strengthened. Modeling improvements and other technical solutions can and should be investigated and tested to improve the efficiency of the CRR auctions and reduce CRR revenue deficiencies. Additionally, Calpine Solutions submits that other solutions in the form of improvements to the auction processes also exist and should be considered. These would include increasing the frequency of auctions or changing the tenor of CRRs so as to allow market participants to make adjustments to CRR

positions and bid prices continuously rather than solely on an annual or monthly basis so as to coincide with the tenor of current CRRs. Calpine Solutions also recommends the CAISO consider whether stricter outage reporting procedures and tariff-based penalty or incentive mechanisms would better ensure transmission outages are properly reported shortly after they are known by the transmission owner so that they can be adequately reflected in the CRR process. These kinds of improvements to the auction process and rules could be equally, if not more, effective at addressing the chronic revenue deficiencies identified in the Auction Report.

In agreeing that improvements to the CRR markets and auctions might be made, whether technical or procedural, Calpine Solutions is not, however, acceding to the overall theme of the Auction Report that CRR revenue deficiencies are necessarily the product of inefficiencies and, beyond that, we strongly disagree with the DMM's suggestion that there is market gaming afoot that requires an entirely different set of instruments and trading regimes. CRRs serve the critical purpose of allowing load-serving entities to hedge locational basis price risks. The value of the risk reductions gained through CRRs should be taken into consideration as potential improvements to the CRR auctions are evaluated, and well before the CAISO seriously considers replacing CRRs and the CRR auctions with other alternative financial instruments and trading platforms. Importantly, bilateral trading of CRRs already occurs, but the transparency of and liquidity in the CRR markets provide market participants with a price referent by which their trading strategies can be guided and upon which their transactions will be based. Eliminating the CRR market altogether will reduce the transparency and liquidity in the market for financial transmission rights and products, which would be an enormous disservice to market participants and, ultimately, consumers.

As a final comment, Calpine Solutions notes that, other than to point out that the three investor-owned utilities appear to be reporting less than half of their transmission outages thirty days in advance (albeit through no fault of their own), the Auction Report and DMM paper fail to distinguish between the utility-provided services and nonutility service providers. While it may be appropriate for the CAISO to simply view "load" as "load" on an indiscriminate basis in some contexts, the distinction between utility loads and nonutility loads is an important one here. As the CAISO evaluates whether a potential defect in its markets requires fixing and, if so, what the fix should be, the CAISO should not turn a blind eye toward the different impacts the fixes will have on different classes of market participants.

Utilities are largely, if not wholly, protected from financial exposure to pricing risk in the CAISO markets. California regulatory schemes essentially allow them to recover the entirety of their market costs through their regulated rates. Imbalances between their costs and revenues, including compensation for timing imbalances, are also reflected in rates periodically, leaving them over the long run financially indifferent to the value of price protections and financial hedges. Nonutility service providers do not enjoy any of these financial protections. The financial viability of their entire enterprise depends on their ability to protect their booked market positions from the risks posed by short- and long-term price volatility in supply and transmission markets. As a result, Calpine Solutions is very concerned that the DMM "solution" of substituting bilateral instruments and trading will be no solution at all – without any incentive to participate in voluntary agreements and/or trading pools, Calpine Solutions believes the utilities will not execute financial instruments or participate in voluntary trading pools at significant levels, leaving nonutility service providers with fewer counterparties with whom they can deal and

trading across platforms and in thin pools of insufficient liquidity and transparency to sustain competitive energy markets over the long term. It would be wholly illogical and ultimately counterproductive for the CAISO to “fix” its own markets by destroying the larger scheme of competitive retail electricity provider services.

Calpine Solutions looks forward to working with the CAISO Staff to find and implement appropriate improvements to the CAISO CRR markets, but will strongly oppose any attempt to replace those markets with lesser alternatives, no matter their theoretical attractions.