



Congestion revenue rights

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CAISO discretionary initiative prioritization workshop
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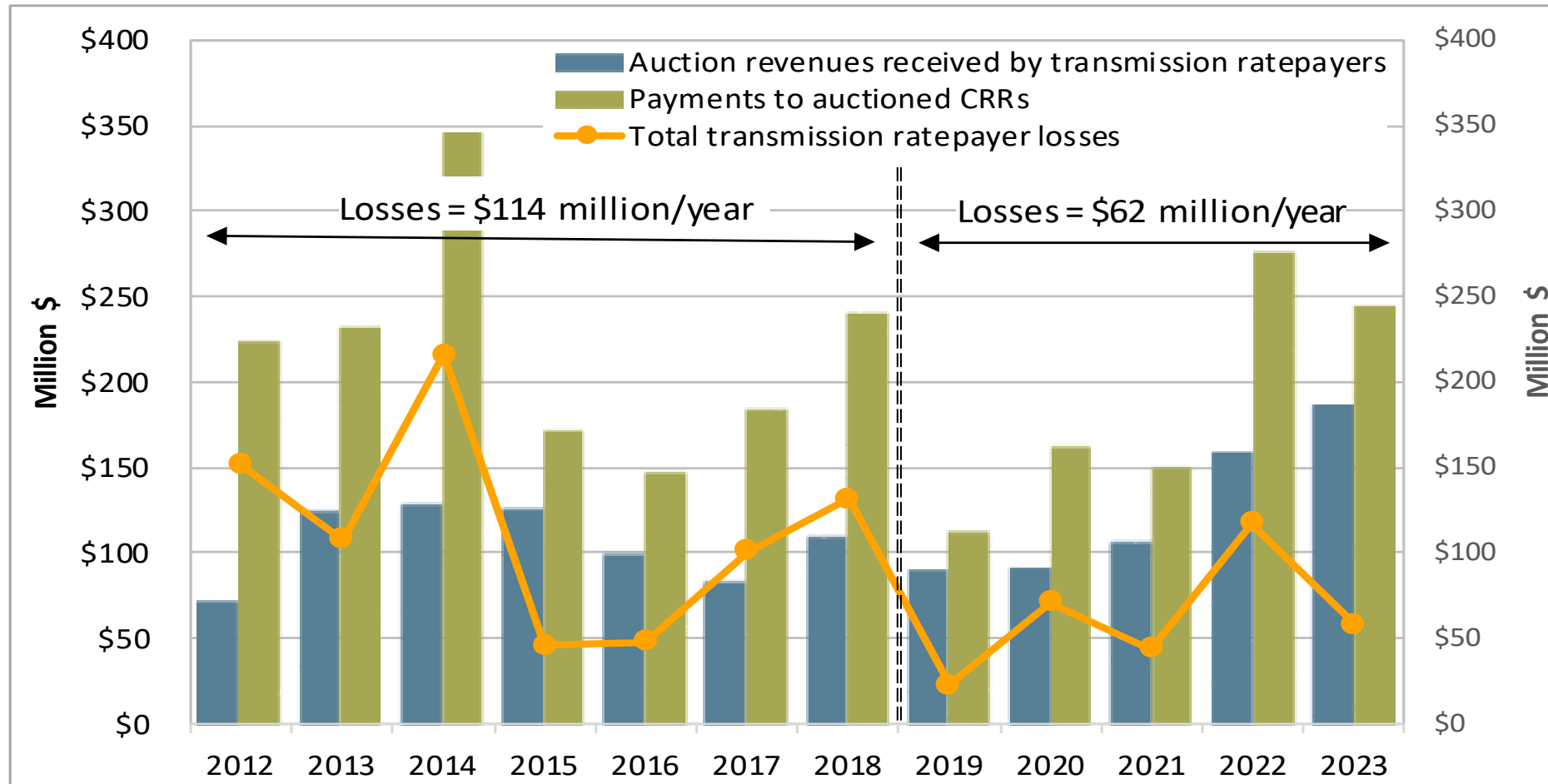
In 2019, changes were implemented in response to systematic losses from congestion revenue right auction sales (\$114 million/year from 2012-2018)

- Track 0 – Increased the number of constraints enforced in the congestion revenue right models, enforcement of day-ahead market “nomograms” in the congestion revenue right models, and other process improvements.
- Track 1A – Limited allowable source and sink pairs to “delivery path” combinations.
- Track 1B – Limited congestion revenue right payments to not exceed congestion rents actually collected from the underlying transmission constraints (implemented by *Deficit Offsets* made in settlement process)

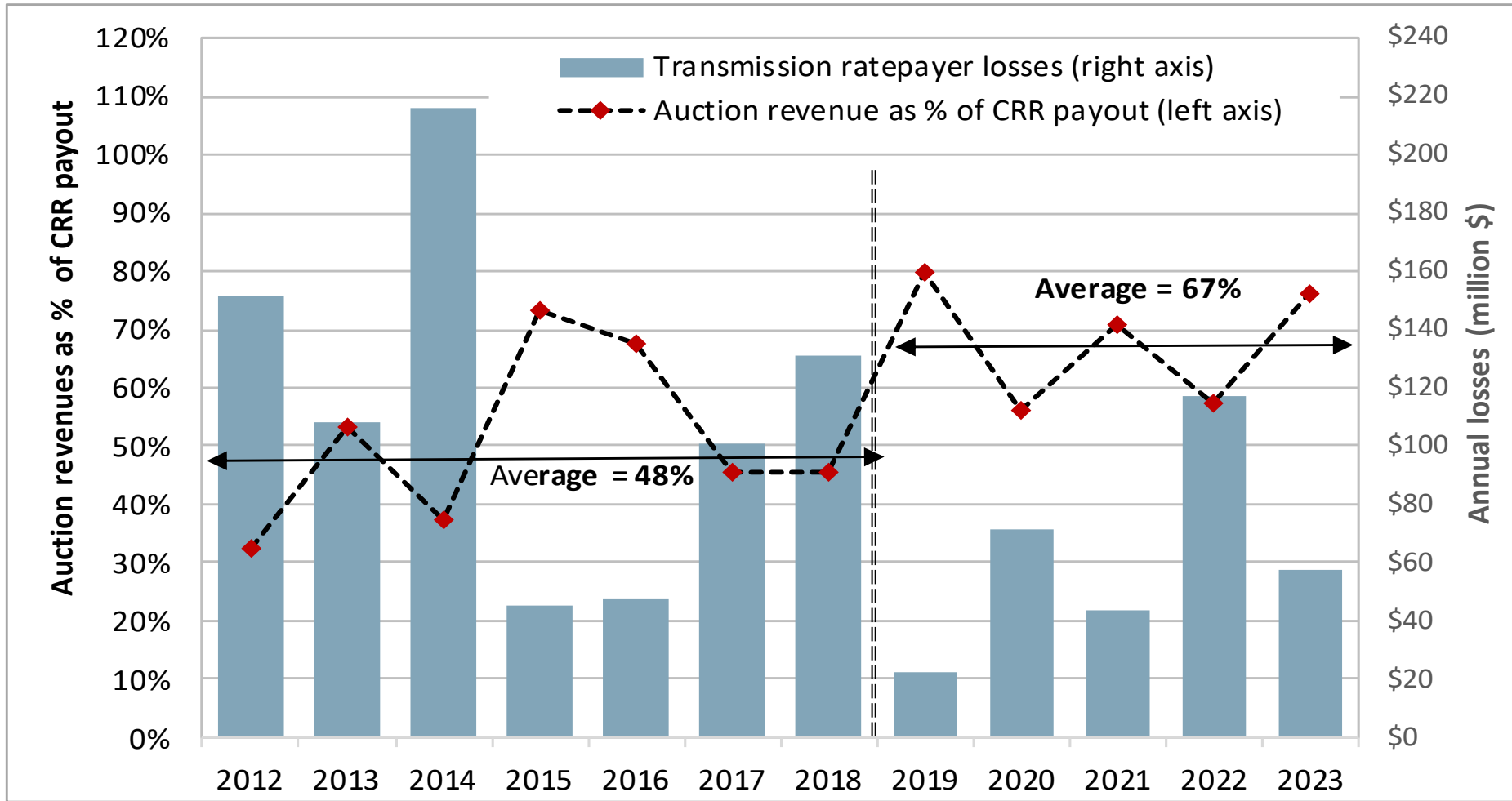
Auction performance since 2019 changes

- Transmission ratepayer losses are lower, but still very high
 - Averaged \$62 million per year 2019-2023, compared to \$114 million in the 7 years before the changes.
 - Auction revenues for transmission ratepayers:
 - Averaged 67 cents per dollar paid to auctioned congestion revenue rights since 2019
 - Averaged about 48 cents per dollar before the changes.
 - Almost all losses due to CRRs bought by financial traders (not by generators or marketers who might use CRRs as hedges)

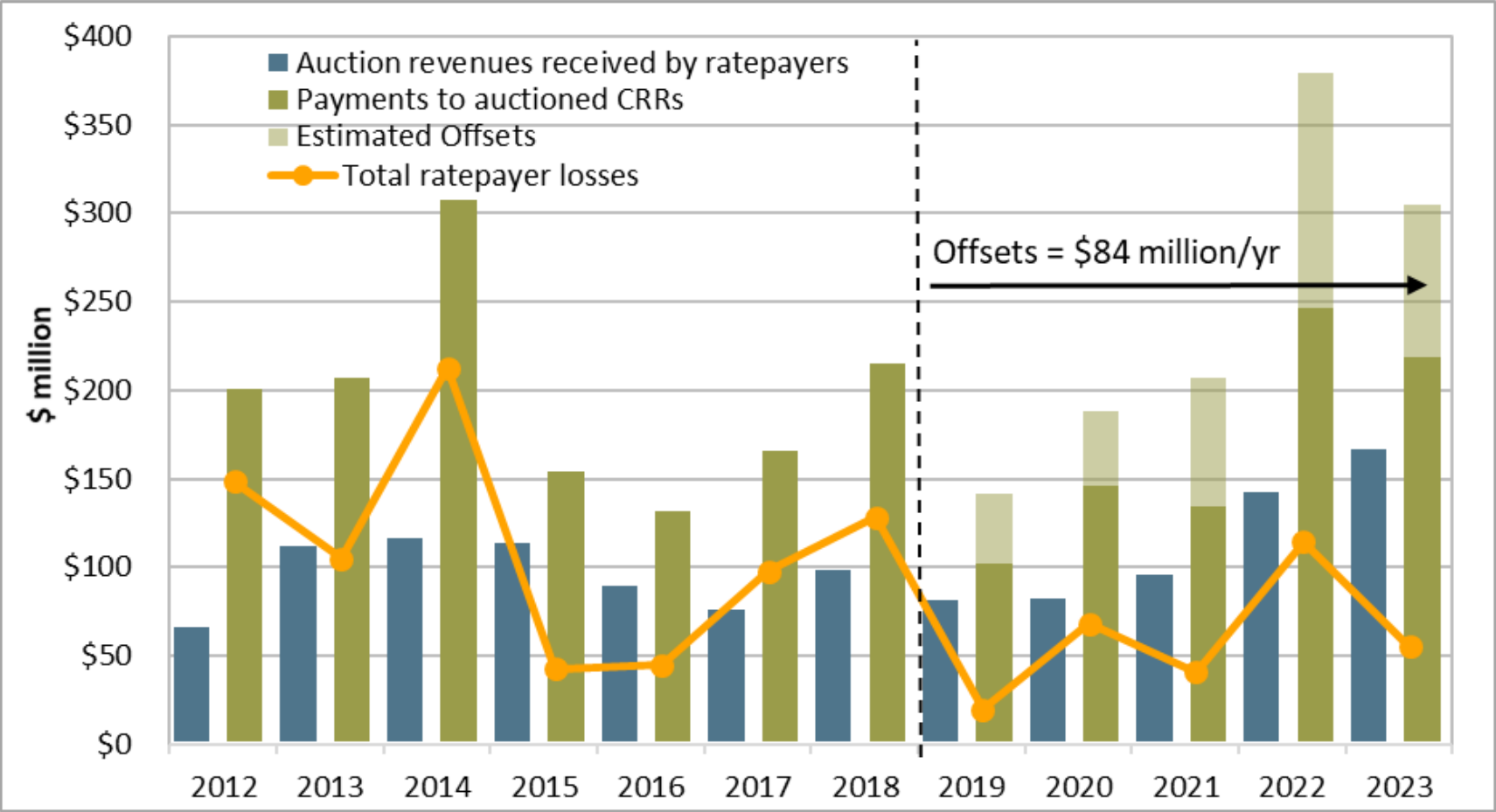
Transmission ratepayers still losing about \$62 million per year from auctioned CRRs in since 2019 changes



Transmission ratepayers have been receiving about \$0.67 in auction revenues for each \$1 in payouts for auctioned CRRs



Track 1B changes (deficit offsets) have prevented losses from being significantly higher



Additional changes needed to mitigate CRR losses

- This should not be discretionary initiative
 - In 2018, CAISO and MSC committed to reviewing CRR performance after implementation of 2019 changes and making additional changes if significant losses continued.
 - ISO and MSC began analysis/discussion of CRR losses in 2023, but have been silent since then. Any plans to follow-up?
- Extended day-ahead market issues
 - Current CRR auction rules subject transmission owners participating in EDAM to significant losses on any CRRs that are auctioned off by CAISO
 - Market for financial hedges offered by willing sellers proposed by DMM would facilitate hedging and voluntary sales of CRRs by EDAM transmission owners.

DMM recommendations

DMM continues to recommend auction be replaced by financial market based on offers from willing sellers

- CRR allocation to LSEs could remain unchanged
 - LSE's can offer allocated CRRs for sale in voluntary CRR market
 - Alternatively, instead of allocating CRRs all congestion revenues could be refunded to LSEs + exports
- Purely financial CRR market would be run with other voluntary bids to sell and buy CRRs
- CAISO will not intervene to sell CRRs backed by congestion revenues
- Implementation of purely financial model would be easier (and less subject to errors) than current CRR model based on physical network