

## CRR Efficiency Analysis Working Group Comments

### Load Serving Entities in Support of Market Efficiency and the CRR Auction

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The Load Serving Entities in Support of Market Efficiency and the CRR Auction (“LSE - CRR Auction Supporters”) is a group of entities, or their representatives<sup>1</sup>, serving load in the CAISO, including the following:

- Alliance for Retail Energy Markets
- Arizona Electric Power Cooperative
- Calpine Energy Solutions, LLC
- Direct Energy, LP
- Just Energy Solutions, Inc.
- Shell Energy North America (US), L.P.
- Valley Electric Association, Inc.

LSE - CRR Auction Supporters rely on the CRR auction for managing the price risks associated with purchasing and scheduling energy to serve their customers. Eliminating the existing auction structure with bilateral only transactions would increase risk volatility, reduce liquidity and limit price discovery, and thus increase prices. Moreover, given that there are over 1000 nodes on the CAISO grid, a bilateral structure is simply not a viable solution.

The LSE - CRR Auction Supporters are pleased to submit these joint comments in response to the CAISO’s December 19, 2017 CRR Workshop and Stakeholder Process Kick Off.

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<sup>1</sup> Alliance for Retail Energy Markets is a regulatory alliance of electric service providers that are active in California’s retail direct access market as load-serving entities and active participants in the CAISO markets, including the buying, selling or scheduling of power on a wholesale basis. Arizona Electric Power Cooperative is a regulatory alliance of electric service providers that are active in California’s retail direct access market as load-serving entities and active participants in the CAISO markets, including the buying, selling or scheduling of power on a wholesale basis. Calpine Energy Solutions, LLC, is a nonutility load-serving entity operating in seventeen states, including California. Direct Energy is a registered ESP in California and CAISO scheduling coordinator that provides energy, energy-smart solutions and energy services to commercial and residential customers across North America. Just Energy Solutions Inc. is a subsidiary of Just Energy Group Inc. In California, Just Energy provides electric service to residential, commercial and governmental customers and participate in the CRR auction on behalf of those customers. Shell Energy North America (US), L.P. is a Scheduling Coordinator with the CAISO which schedules both generation and load. Valley Electric Association, Inc. is an LSE that serves approximately 125 MWs of peak load in the CAISO. Several of these parties have also submitted individual comments.

## Comments

**Market Efficiency and Competitiveness are Key:** The CAISO was formed on the premise that competition among many buyers and sellers is advantageous, and the CAISO's markets are designed based on economic market efficiency principles. These elements are key and should inform choices about the CRR markets.

**The CRR Auction is a Critical Price Risk Management Tool for Competitive LSEs:** Non-IOU LSEs that do not have the regulatory cost recovery protections that the IOUs have must manage the exposure to congestion costs and rely on market-based hedging mechanisms to do so. The CRR auction mechanism is precisely the type of market based mechanism that provides the platform for congestion price risk management for energy purchased at one point and then redelivered to their load at another point. Given the size of the CAISO grid, with more than 1000 purchase and delivery nodes, bilateral negotiations to achieve this risk management is highly inefficient, compared to a clearing auction mechanism; and, relying only on bilateral negotiations will raise costs.

**CRR Revenue Insufficiency Does Not Negate the Value of the CRR Auction:** The LSE - CRR Auction Supporters are concerned about Net CRR Payments – payments wherein net congestion rents are lower as a result of the CRR auction – as are the IOUs. It is not that LSE - CRR Auction Supporters do not want resolution of this issue. However, without the market liquidity, price transparency and hedging capability provided by the CRR auctions, costs to customers of non-IOUs will be higher – even recognizing that at times the Net Congestion payment are negative.

**The CRR Auction Provides Critical Market Liquidity and Transparency:** The CRR process, including the availability of the auction, is critical for a nodal market design. It provides a platform where many buyers and sellers can participate together to render efficient clearing prices of market hedges. It also brings a high level of transparency to the cost of forward energy market locational hedging. The CAISO market competitiveness will be harmed if the CRR auction functionality is taken away.

**CAISO's Analysis of Situation is Productive:** We appreciate the work the CAISO has done to analyze inefficiencies associated with the CRR and market models, as presented in the CAISO's [CRR Auction Analysis Report](#) and discussed at the workshop. The report highlights several areas where improvements may be made that would result in market efficiency improvements, in particular in the area of conforming the CRR model with the day-ahead market model. These improvements can and should be implemented instead of eliminating the CRR auction.

**CAISO's Analysis Identified Major Drivers:** The CAISO's analysis identified two factors that are significantly driving CRR revenue inadequacy. (The CAISO's analysis also revealed that the Net CRR Payments are very correlated with the CRR revenue inadequacy.) Those are (1) outages that are not reported by Transmission Owners in accordance with the tariff outage reporting timelines, and (2) DA model changes that the CAISO staff are implementing inconsistently with the representation in the CRR auction model.

**Non-IOU LSEs Have Essentially No Control Over These Drivers:** Non-IOU LSEs have no control over how the major transmission owners in California – the IOUs – schedule their transmission outages. That is a matter for the CAISO to manage, and the transmission outage reporting requirements should be clear so that there is no uncertainty on the part of the IOUs as to when and how, and in what timeframe outages

must be reported. Enforcement of outage scheduling for transmission owners should be as rigorously imposed and enforced as are the outage scheduling requirement for generation, and transmission owners should not be shielded from the adverse market impacts of any failure to comply with outage scheduling requirements.

**It is Improper to Limit all LSEs' Abilities to Participate in the Auction:** Because of the regulatory framework that the IOUs operate under, their regulator has imposed limits on their participation in the CRR auction. That should not serve as a rationale for eliminating the auction for non-IOU LSEs that do not operate under the same regulatory protections. It also should not serve as the rationale for limiting participation in the auctions - for example to only hubs and load aggregation areas, or only to certain priced CRRs. Neither of those choices is a proper or efficient market design choice for the CAISO to make.<sup>2</sup>

**The Solutions Lie in Market Efficiency Improvements:** As indicated above, the CAISO's analysis report identifies two significant distortions that bear the bulk of the responsibility for the revenue inadequacy seen in the CRR markets and that also seemingly affect net negative CRR payments. Those two distortions are transmission outages that are not properly reflected in the CRR models due to late reporting and constraints implemented in the DA market that were not captured in the CRR models. Implementing remedies to these distortions should be the focus of the CAISO's effort. To eliminate or further restrict the CRR Auction at this time would only act to reduce market liquidity and transparency; and, it would harm non-IOU LSEs who do not manage the reporting of transmission outages as do the IOUs, or enjoy the same regulatory protections that the IOUs have.

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<sup>2</sup> Certainly, if there is market power being exerted, it is the role of the CAISO to address market power concerns. There is no indication from the CAISO's analysis that market power is a concern in the CRR auction.