

December 6, 2017

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON,
PASADENA, AND RIVERSIDE, CALIFORNIA ON THE
CRR AUCTION ANALYSIS REPORT**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their preliminary comments on the CRR Auction Analysis Report dated November 21, 2017 ("the Report"). The Report reinforces what has been well-known for several years, *i.e.*, that revenues received from the annual and monthly CRR auctions persistently fall significantly short of congestion payments made to the holders of the auctioned CRRs. Subject to further discussion at the December 19, 2017 working group meeting to discuss the Report, the Six Cities have the following observations and questions:

- 1) The Report states that prior to May 2015, approximately 25% of CRRs awarded in the monthly auction were priced at \$0, and that since June 2015 the volume of CRRs at zero prices has been approximately 7%. Report at 34-35. The Six Cities question the logic and value of allowing any CRRs to be awarded at a zero price. Issuing auctioned CRRs for a zero price obviously does not contribute to auction revenues and appears simply to expand the scope of speculative holdings. The Six Cities request an explanation as to how issuing auctioned CRRs for a zero price benefits the market.
- 2) The Report indicates that high percentages of CRRs awarded in the monthly auctions (92% for Off-peak periods and 76% for On-peak periods) clear within the price range of negative \$ 0.25/MWh to positive \$ 0.25/MWh. Report at 34. The predominantly low prices for auctioned CRRs suggest that they are not purchased primarily for the purpose of hedging physical transactions but rather represent a form of lottery in which financial speculators can acquire a large portfolio of auctioned CRRs for modest payments and then profit from the payout of congestion revenues attributable to a few CRRs within the portfolio. A significant difference between the CRR auctions and a traditional type lottery, however, is that participation in lotteries is voluntary, while ISO transmission customers are compelled to support congestion payments to the holders of auctioned CRRs.
- 3) The Report states that a large volume of CRRs released in the auctions are for CRR definitions with very few awards, and that approximately half of the auctioned CRRs are based on CRR definitions with one single award. This observation reinforces the similarity of the CRR auctions to lotteries. The Six Cities join the ISO in questioning how much liquidity or hedging the auctions may be providing given the large volume of single definition awards. *See* Report at 10.

- 4) The ISO Department of Market Monitoring previously has provided information on relationships between auction revenues and congestion payouts by type of auction participant (*i.e.*, financial participants, generators, load serving entities, *etc.*). Did the ISO personnel who prepared the Report conduct any analysis or collect any data concerning bidding patterns (*e.g.*, prices, source/sink pairs) by type of auction participant?
- 5) The Report evaluates the contribution of various types of outages to differences between the system models used in the CRR auctions and the models used in the Day-ahead optimization. Given the temporal separation between the auctions and Day-ahead processes, it seems unlikely that such differences in models ever could be eliminated entirely or even substantially reduced. *See, e.g.*, the Report at 202-203. If that is the case, it appears that differences between auction revenues and congestion payouts are unavoidable as a practical matter. Compelling transmission customers to bear the risk of those differences is unjustified in the absence of significant and quantifiable benefits to those customers resulting from the CRR auctions.

Submitted by,

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