

## Western Power Trading Forum Comments on ISO CRR Auction Efficiency

### Track 1B Draft Final Proposal

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WPTF appreciates the opportunity to submit comments on the CAISO's CRR Track 1B [Draft Final Proposal](#) (DFP) dated May 11, 2018 and the [addendum](#) issued May 25, 2018. WPTF offers the following comments.

#### Previously Expressed Positions

WPTF has detailed several overall positions related to Track 1B in prior comments. We will not repeat them extensively herein, but rather simply list these positions.

- WPTF supports the CAISO's approach to not pursue a reduction in capacity in the auctions in accordance with the past proposals of SCE and DMM.
- WPTF supports further consideration of the timing of release of capacity along the lines of a design such as ERCOT has implemented.
- WPTF's strong preference is to maintain CRRs as fully-funded products.
- WPTF objects to the layering of Track 0, 1a, and 1b as coincident operational and policy changes.<sup>1</sup>

#### Specific Feedback on Track 1B proposal

With respect to the Track 1B proposal itself, WPTF offers the following comments.

##### **Support for Symmetrical Treatment of Forward and Counterflows**

WPTF supports symmetrical treatment of forward flows and counterflows. WPTF thereby does not support the ISO proposed change as captured in the DFP addendum. Asymmetry would produce distortions in the valuation of transmission and transmission hedges and would result in impure policy outcomes. A simple example illustrates this point. If a CRR participant has 100 MWs of a CRR from A to B and 100 MWs of a CRR from B to A then any revenue inadequacy allocation should result in no net impact to that participant; to reduce the payment on the CRR from A to B, and not have an offsetting symmetrical impact on the pay for the CRR from B to A would not be consistent with cost causation.

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<sup>1</sup> WPTF also finds that the ISO's pursuit of Track 1b itself seems overly forced forward. This is exemplified by the Market Surveillance Committee's discussion on the topic on this same day when comments are due. The MSC offered vastly different proposal preferences than those put forth by the ISO in its DFP. Converging to a supported and robust design in time for the June board vote seems unrealistic.

### **Allocation of Shortfalls without Allocation of Surpluses Creates Distortions**

The ISO's proposal to not include surpluses outside of the short netting periods create distortions, and we address these next. The policy design would be inherently more stable if the ISO allocated surpluses in addition to shortfalls.

### **Opposition of Short Netting Periods**

WPTF opposes the proposal to limit netting to a month. Such a short netting duration creates an artificial cut off on the proposed smoothing or netting quality of the ISO's proposal – an aspect of the proposal that is important in light of the choice to not also allocation surpluses. The short netting period will create distorted outcomes, for example whereby a derate that occurs on the 15th of a month could have a very different outcome on CRR funding than a derate that occurs on the 1<sup>st</sup> of the month would hav. A short 30-day netting period causes such calendar month outcomes to be overly extenuated relative to – for example – an annual netting policy.

### **Opposition of Slicing and Dicing Finer than the CRR Product Itself**

The CAISO has proposed to allocate shortfalls by constraint and further by contingency case. Such a fine “slicing and dicing” prevents the smoothing of impacts over the shadow price impacts that affect the CRR's clearing price and that affect revenue adequacy. This seems counter to stated policy objective of limiting short fall allocation pertaining to certain CRRs thereby limiting the adverse impact of LSEs of net uplifts. Notably the DFP could cause a CRR holder's CRR to be less than a full hedge even if that CRR would not have been revenue inadequate. Further, to allocate by constraint and by contingency case is to allocate at a level of resolution well below which a CRR participant can take any position. Said otherwise, when a CRR holder values CRRs they are doing so given all the constraints and contingencies that could affect the CRR. A policy that allocates based on constraints and contingency cases is misaligned with the commercial product to which the policy is intended to apply. WPTF strongly encourages the CAISO to instead net across all contingences for a given CRR.

WPTF appreciates the CAISO's consideration of these comments.