EMTRI Comments on Draft 2013 Stakeholder Initiatives Catalog
Proposals for the change of the current structure of the annual CRR auction

Please find below three proposals for the change of the current structure of the annual CRR auction. These proposals, in the increasing level of implementation complexity, provide specifics and details for Sec. 6.4 Long Term CRR Auction (D) of the 2013 Stakeholder Initiatives Catalog.

Proposal 1: instead of running all 4 quarters concurrently, run them as a sequence. The advantages of such sequential approach are:

1. More efficient use of collateral for Market Participants (MPs).
2. Less chance of a mistake or confusion between quarters and correct targeting of quarterly bids since there is only one quarter to target. Elimination of possibility of submitting bids intended for one quarter into a different quarter.
3. Containment of errors to a single quarter. Errors may be as inadvertent as a “fat finger” effect, which, under the sequential auction structure would be contained to a single quarter as opposed to having propagated through the bids and auction results for the entire year.
4. The outcome of the previous quarter may help a MP in its bidding for the subsequent quarters in the next rounds. Learning process from quarter to quarter for MPs.
5. More efficient use of MP’s resources by spreading them out over the sequence, as opposed to “big bang” for all four quarters together.
6. Better price discovery as more collateral can be allocated to a single quarter by MPs.
7. Risk mitigation for CAISO: if something goes wrong in the annual auction, the potential damage is limited to one quarter.
8. Depending on how the timing of such quarterly auctions is done, there can be a better equalization between the auction time for a given quarter and the quarter itself. For example, if the fourth quarter (Q4) auction is held when the annual auction is scheduled to be held but the auctions for the previous quarters (Q1 – Q3) are spread out over mid-September – October, the lengthening of time between the Q1 auction and the actual Q1 will somewhat equalize the differential that currently exists between the annual auction date and Q1 and the annual auction date and Q4. Thus, the hedging time horizon will be somewhat equalized for different quarters.

As long as each quarter round is run before the respective monthly auction, there are many opportunities to space out quarterly rounds between monthly rounds. For example, for 2014 CAISO would have to complete Q1 2014 before Jan 2014, Q2 2014 to be completed before April 2014, etc.

The FNM may be fixed, i.e. the same FNM is used for all 4 quarterly rounds, or it can change from round to round. If a fixed FNM for all 4 quarters is preferable in simplifying the production, then all four quarterly auctions can use the same FNM as they do today, only the timing of the quarterly auctions will change.

Proposal 2: Multiple rounds for a given auction.

Multiple rounds appear to be easy to implement as they do not require a change in the current structure of the auction, just a break-up of the auctioned capacity into three or four parts for the respective rounds, allowing participants to purchase in the subsequent rounds what they did not buy in the prior rounds. The examples of the markets that have such multiple rounds are PJM, MISO, NYISO. The benefits of multiple rounds include:

1. Containment of errors to a given round. Errors may be as inadvertent as a “fat finger” effect, which, under the multiple rounds structure would be contained to a single round as opposed to the entire auction. The consequences of errors in the previous round may be mitigated in a subsequent round.
2. The outcome of the previous round may help a MP in its bidding in the next rounds. Learning process from round to round for MPs.
3. Better price discovery in multiple rounds as opposed to a single round.
4. Risk mitigation for CAISO: if something goes wrong in one round, the potential damage is limited to that round.

Proposal 3: the rolling auction where future periods such as future months, quarters, half-a-year strips, or years can be traded multiple times.

The second change is the adoption of the “rolling hedge” structure for the annual auction. We would suggest using the PJM and ERCOT models as examples to examine for the prospective CAISO rolling quarterly-annual auction for 2 years out. PJM offers different granularities for different horizons in its structure of annual and long-term auctions multiple times in a year. ERCOT offers two rounds of four 6-months sequences annually. A variety of MPs may welcome the opportunity to trade further and to be able to rebalance their hedges as their mid-range and long term forecasts change. Also, CPUC supports rolling hedge as risk-reducing and benefiting consumers in a long-term. Right now there is no opportunity to rebalance the annual position in an auction except in the near term, i.e. in the monthly auction. With the new opportunity to re-trade a given future period such as a quarter more than once MPs can better adjust their hedges in the intermediate and long terms. Such opportunity will result in better risk management and price discovery for the entire market. Keeping the current structure of quarterly-annual auctions for such rolling auction may require fewer software changes on the vendor side and on the CAISO side.

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