

Memorandum

To: ISO Board of Governors

From: Benjamin F. Hobbs, Chair, ISO Market Surveillance Committee

Date: May 9, 2018

Re: **Briefing on MSC activities from March 16 to May 8, 2018**

This memorandum does not require Board action.

During the period covered by this memorandum, the Market Surveillance Committee consulted with ISO staff on several initiatives. The MSC also held a general session meeting on April 5, 2018. During that meeting, there were presentations and discussions on the ISO's congestion revenue rights initiative, as well as the day-ahead market enhancements initiative.

Below is description of the presentations and discussions at the general session meeting.

General Session Meeting of April 5, 2018¹

1. Congestion Revenue Rights Allocation and Auction

Mr. Perry Servedio, Sr. Market Design Policy Developer at the ISO, started the discussion by summarizing the ISO's proposed track 1B revisions to the congestion revenue rights process. The MSC is planning to prepare a formal Opinion for submission to the Board of Governors.

Track 1B emphasizes how congestion revenue rights would be settled in the day-ahead market, as opposed to the emphasis of track 1A, which was on the design of the congestion revenue rights auction. Mr. Servedio summarized alternative approaches for partial payments of congestion revenue rights that could lower payouts and thus perhaps lessen the problem of CRR payouts being well in excess of congestion revenue rights auction revenues. Also briefly discussed in his presentation were additional possible modifications to the congestion revenue rights auction, including releasing fewer rights, instituting reserve prices, and the Southern California Edison/Department of Market Monitoring proposal.

The second presentation, "CRR Revenue Adequacy, Auction Values, and Settlement Rules", was made by MSC member Scott Harvey. Dr. Harvey's presentation emphasized that congestion revenue rights payouts in the day-ahead market can be well in excess of auction revenues for congestion revenue rights that target constraints that are impacted in particular ways by transmission outages that will be modeled in the day-ahead market but are not modeled in the CRR auction.

¹All presentations are available at <http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=A4C61AE7-58FA-4016-BE5C-B5D2178E7905>

An example was used by Dr. Harvey to illustrate a problem that arises because transmission outages that will be scheduled only for some days during a month must either not be modeled at all in the relevant monthly rights auction (if they occur for too few days) or are modeled as occurring during all days (if they occur for a large enough number of days). If market participants know that a particular outage will be modeled on some days in the day-ahead market but is not modeled in the CRR auction, they may be able to identify CRRs between particular sources and sinks that will generate artificially large payouts relative to the CRR price in the auction.

Dr. Harvey also pointed out that auction/day-ahead market discrepancies in load distribution factors used to define load aggregation point pricing could also present opportunities for traders to obtain rights cheaply that have relatively large pay-outs. Finally, Dr. Harvey suggested that while the source-sink restrictions proposed by the ISO would tend to address these issues, a more complete long-run solution to these issues would be to use the shift factors for the auction's network model to settle congestion revenue rights, rather than the shift factors from the day-ahead market.

The third presentation was by MSC Members Jim Bushnell and Ben Hobbs, entitled "SCE/DMM Alternatives: Potential Issues". Dr. Bushnell summarized several technical, institutional, and legal issues. He and Dr. Hobbs emphasized that under the Southern California Edison/Department of Market Monitoring proposal, it would be difficult to assemble precisely the counterflow congestion revenue rights needed to exactly match a congestion revenue right that a party might desire. Dr. Hobbs laid out some of the mathematical reasons for this difficulty. Dr. Bushnell also discussed institutional issues, such as the weak or missing incentives for regulated owners of congestion revenue rights to sell them to market parties who might value them more.

2. Day-Ahead Market Enhancements

Don Tretheway, Senior Advisor, Market Design Policy and Megan Poage, Senior Market Design & Regulatory Policy Developer, presented an overview of the major features of the day-ahead market enhancements proposal. Emphasis was placed on the replacement of the residual unit commitment process now used in the day-ahead market with up and down day-ahead imbalance reserves. Also discussed was the proposed implementation of the 15-minute scheduling intervals to replace the present hourly intervals.