

**Comments of Powerex Corp. on
Congestion Revenue Rights (CRR) Clawback Modification Draft Final Proposal**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO's May 16, 2016 Draft Final Proposal on Congestion Revenue Rights (CRR) Clawback Modification ("Draft Final Proposal").

As explained more fully in its prior comments, Powerex strongly supports CAISO's proposal to permit day-ahead awards to be re-bid in the real-time market at a price equal to or better than the day-ahead price without such adjustments being treated as a "virtual bid" for purposes of the CRR clawback rule. Powerex believes that CAISO's proposal will eliminate a feature of the rule that has acted as a powerful disincentive for real-time market participation at the interties. Powerex is optimistic that implementation of this change will materially increase real-time flexibility from intertie resources. For that reason, Powerex urges CAISO to make the modifications set forth in Section 5 of the Draft Final Proposal effective as soon as possible. Powerex also echoes comments expressed by the Department of Market Monitoring¹ ("DMM") and the Market Surveillance Committee² ("MSC") that additional refinements should be explored and pursued in the future.

Powerex previously took no position regarding the current exemption for virtual transactions at Trading Hubs and at load aggregation points ("DLAP") from the application of the CRR clawback rule. Powerex did inquire, however, whether the rationale for eliminating the exemption—concerns over virtual trading being used to benefit a related CRR position—applied at the large major Trading Hubs such as NP15 and SP15. Given DMM's representation that it has observed the use of convergence bidding to increase the value of CRR holdings at such locations,³ Powerex at this time does not oppose the modifications proposed in Section 6 of the Draft Final Proposal.

¹ See Department of Market Monitoring, *Comments on CRR Clawback Modification Straw Proposal* at 1 (May 5, 2016) ("DMM Comments") ("Some stakeholders also suggested a potential change to the clawback rule that only the portion of CRR revenues from a constraint not offset by congestion charges to the portfolio's day-ahead market schedules from the constraint be subject to clawback , , , DMM suggests the ISO consider making this change when practical."), *available at* <http://www.caiso.com/Documents/DMMComments-CRRClawbackRuleModification-StrawProposal.pdf>.

² The proposed changes to the CRR clawback rule were discussed during an April 19, 2016 general meeting of the MSC.

³ DMM Comments at 1. *See also* Draft Final Proposal at 8; CAISO Presentation at May 23, 2016 stakeholder call, at 7 ("DMM has observed convergence bidding on aggregation points increasing value of CRR holdings."), *available at* <http://www.caiso.com/Documents/Agenda-Presentation-CongestionRevenueRightsClawbackRuleModification-May23-2016.pdf>.

During the May 23, 2016 stakeholder call on the Draft Final Proposal, the timetable for implementing the proposed measures was discussed. One stakeholder advocated for deferring the elimination of the exemption for virtual activity at Trading Hubs and DLAPs until the current annual CRRs have expired. The implication of the stakeholder's comment was that implementation should not occur until Spring 2017. Powerex believes that such a delay would be unwarranted and imprudent for several reasons.

First, while Powerex generally supports timing major rule changes to minimize disruption and harm to existing contracts and investments, CAISO has not proposed any changes that would modify the value of existing CRRs. To the contrary, the function and value of CRRs will remain unchanged. Moreover, any CRR holder that wishes to be sure to avoid triggering the CRR clawback rule can do so by limiting its virtual transactions to below the flow limits associated with its CRR holdings. Although a CRR entitles the holder to receive the day-ahead congestion value between two locations, it does not include an unlimited "right" to engage in virtual trading at locations that affect the value of those CRRs. Simply put, the proposed rule changes do not affect the value of *existing* CRRs, but they do reduce the ability for a participant to engage in virtual trading activity that improves the value of those CRRs.

Second, while the arguments for delaying implementation appear unfounded, there are clear and significant harms that will result if these changes are unnecessarily delayed. Since the implementation of the Order 764 tariff amendments in May 2014, both the CAISO and DMM have repeatedly highlighted the lack of participation by flexible resources at the interties which impedes real-time market efficiency. The need for flexible real-time resources in the coming months is significantly heightened by the disruption to the Aliso Canyon gas storage facility; this topic was also recently discussed at FERC. As noted above, CAISO's proposal has the potential to attract additional real-time economic bidding from intertie resources. These bids can be particularly beneficial in responding to changing system conditions.⁴ In other words, intertie resources can be an important part of providing real-time flexibility to the CAISO grid. Unnecessarily delaying these changes, in contrast, is likely to deprive CAISO of an important source of additional system flexibility, with little to justify such a delay as either necessary or warranted. To the contrary, Powerex would support CAISO seeking expedited approval for the proposed changes at FERC, with the tariff changes potentially being made effective even prior to the necessary changes to the settlement systems being in place.⁵

If CAISO does determine that it is appropriate to delay elimination of the exemption for virtual activity at trading hubs and DLAPs, then Powerex urges CAISO to separate the implementation

⁴ Day-ahead import awards that are re-bid at or below the day-ahead price are ideally suited to responding when CAISO has excess energy in real-time. Similarly, day-ahead export awards that are re-bid at or above the day-ahead price are ideally suited to responding when CAISO needs additional energy in real-time.

⁵ This would imply an initial period in which the new CRR clawback tariff provisions are in effect, but the settlement systems continue to apply the outdated CRR clawback provisions. Upon implementation of the settlement system changes, retroactive adjustments to CRR clawback charges would be made at the next opportunity (*e.g.*, the adjustments would be reflected in the T+9 Month invoices). To be clear, Powerex does *not* advocate CAISO imprudently rushing the design and testing of the required software changes to CAISO's settlements systems.

timetable for the two modifications. There appears to be little reason why the effective date of the changes related to import/export schedule adjustments would need to be deliberately delayed until the time that the changes related to virtual activity at trading hubs or DLAPs become effective. Independent implementation would permit CAISO to defer implementation of virtual trading modifications while avoiding the harm associated with unnecessarily delaying changes to the treatment of intertie activity.