

Powerex Comments on CRR Allocation Rules

As requested by the CAISO at the Stakeholder Meeting held on April 3, 2007, Powerex offers the following comments on the proposals in the presentation by Lorenzo Kristov, “CRR Allocation Rules – Resolution of Open Issues.”

CAISO Proposal: Reserving Grid Capacity for Auctions

Powerex agrees with the CAISO that intertie CRRs available in the auction must be feasible. However, the proposals to date have failed to make an equitable share of the feasible intertie CRRs available in the auction. The CAISO proposed in its February 2006 MRTU tariff filing that 50% of the residual intertie capacity be set aside for the CRR auction. FERC determined it was unclear how much intertie capacity would actually be available under the CAISO's proposal, and ordered the CAISO to ascertain whether its proposal needed to be changed to achieve a 50% set-aside for the auction. The dry run results show that on some of the interties, the CRRs bid for in the auction were infeasible. As a result, the process for setting aside capacity for the auction needs to be amended to ensure that a 50% set-aside of feasible CRRs is achieved. The CAISO's proposal fails to achieve this outcome.

Powerex advances two proposals for ensuring the deliverability of any grid capacity set-aside for the CRR auction. The first proposal involves modeling Import CRRs set aside for the auction as fixed injections and withdrawals (“set-aside flows”) in the simultaneous feasibility tests (“SFTs”) used in the allocation process. The second proposal involves targeted de-rating of specific transmission network elements needed to deliver power from the interties, with the targeted derates used in the allocation process but restored to their full values in the auction.

Under either option, the quantity to be set aside for the auction is unchanged from the MRTU filing: 50% of the residual intertie capacity remaining after subtracting verified sources. These feasible CRRs set aside for auction are defined as having a source at the given intertie and a sink at the nearest trading hub.

Option 1 – Model Intertie-to-Trading Hub CRRs as Fixed Flows in Allocation SFTs

Under this option, the specified quantity of Import CRRs to be set aside for the auction is modeled as a fixed injection at the intertie, and a fixed withdrawal at the nearest trading hub. These set-aside flows are modeled in the SFTs performed in each tier of the allocation process. As a result, the CRRs are allocated only to the extent that they are simultaneously feasible with the conditions already included in the model.

One potential concern is that the presence of the set-aside flows in the SFTs could permit additional CRRs to be allocated in the opposing direction. For example, the set-aside flows might be 100 MW from Intertie A to Trading Hub X, as shown in Figure 1.

Figure 1

The presence of the set-aside flow would increase by 100 MW the maximum quantity of feasible CRRs from Trading Hub X to LAP 1, permitting CAISO to allocate up to 600 MW of X>LAP1 CRRs. In the example, the requested X>LAP1 CRRs are 550 MW, and are therefore granted. This is not a concern if the CRRs requested and allocated to LSEs do not rely on the counterflows to effectively increase capacity (e.g. if the requested X>LAP1 CRRs were no more than 500 MW). It is additionally not a concern if, in the auction, sufficient A>X CRRs are actually awarded to provide the counterflows relied upon in the allocation (at least 50 MW, in this example). However, a failure to award at least the utilized counterflow volume of CRRs in the auction would result in an infeasible set of CRRs. In the example above, the 550 MW of allocated X>LAP1 CRRs are clearly infeasible if there are not at least 50 MW of A>X CRRs sold in the auction.

This potential concern can be addressed by specifying that any allocated CRRs that are feasible only because of the presence of the set-aside flows will be contingent upon the actual CRRs sold in the auction. If insufficient CRRs are sold in the auction to provide the needed counterflows, a portion (or all) of the contingent allocated CRRs would be rescinded.

The risk of a contingent allocated CRR being rescinded can be managed by the LSEs by submitting bids for enabling CRRs in the auction (at a low or negative price, presumably). This ensures that their contingent allocated CRRs will remain feasible after the auction. Of course, if there is strong demand for the enabling CRRs in the auction, the LSEs' "reserve bid" will not be accepted and the LSE will not need to purchase the CRR.

Option 2 – Use Targeted Derates in Allocation SFTs

An alternative option is to apply targeted derates to specific transmission elements needed to accommodate the set-aside flow. For example, the 100 MW set-aside flow from Intertie A to Trading Hub X would be modeled, and the flows on each transmission element recorded. In the allocation SFTs, the capability of each of the affected transmission elements would be reduced by the loadings due to the set-aside flow.

“Please see graphic”

In this manner, there is no potential for counterflows to increase the amount of allocated CRRs. The transmission capacity reserved for the auction allows, but does not require, that the Intertie-to-Trading Hub CRRs be cleared in the auction. The resulting allocation will be feasible even if none of the CRRs that correspond to the set-aside flows are sold in the auction. Similarly, they will also be feasible, by design, if the CRRs that correspond to the set-aside flows are fully subscribed in the auction.

CAISO Proposal: Source Verification Rules

Powerex opposes allowing the use of contracts of less than one month for source verification. The allocation of CRRs to LSEs is not intended to provide hedges for daily transactions but rather for longer term contracts. LSE's already have the ability in Tier 3 of the annual allocation process and Tier 2 of the monthly allocation process to nominate CRRs that they can use to support their shorter term contracts. And, of course, all participants may purchase additional CRRs in the annual and monthly CRR auctions. If the CAISO nevertheless adopts this proposal, the CRRs acquired with these short term contracts should not be available for conversion to Long Term CRRs.

CAISO Proposal: Set-Aside of Import Capacity

Powerex strongly supports that the change in the reference year for source verification should not reduce the Dry Run set-aside quantities for the auction¹. However, Powerex believes that there should not be any circumstance where a change in the reference year reduces the Dry Run set-aside quantities for the auction.

Powerex also agrees that to ensure a durable mechanism to set-aside quantities for the auction beyond Year 1, the set aside quantities should be calculated after the Priority Nomination Tier in Year Two and subsequent years, rather than after Tier 2 as is in the current MRTU tariff.

¹

As further described on page 19, Section 4.2, Option 1, CAISO Updated CRR Issues Paper, March 19, 2007.

