Stakeholder Comments

CAISO CRR Clawback Modification Issue Paper and Straw Proposal

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SCE appreciates the opportunity to comment on the California Independent System Operator (CAISO) CRR Clawback Modification Issue Paper and Straw Proposal (Proposal)[1]. In the Proposal, the CAISO proposed two modifications to the CRR clwabck rule:

> *"The two modification are: (1) import and export changes that meet certain conditions are no longer subject to the rule and (2) convergence bids at default load aggregation points and trading hubs are no longer exempt from the rule."*

On the first proposed modification,

> *"The ISO proposes to modify the CRR clawback rule as follow:*
>
> - *If the import/export passes the HASP reversal rule test (e-tag support day-ahead schedule prior to FMM), then*
>   - *If import bid <= day-ahead price, then the import is not considered a virtual award*
>   - *If export bid >= day-ahead price, then the export is not considered a virtual award*
>   - *If an import/export bid/self-schedule in real-time market is less than the day-ahead schedule, then the difference shall be still subject to HASP reversal rule."*

Under the CAISO Proposal, if the participant rebid at a price equal to or lower than day-ahead price and passes the HASP reversal rule test, the CRR clawback rule will be exempted, which would encourage such rebidding in real-time that could improve the intertie liquidity *in theory*. However, given that day-ahead price has been consistently higher than real-time price on average[2], an incentive should already exist for participants without CRR holdings. That is, entities could rebid their imports today and receive energy payment because of day-ahead price higher than real-time price on average. The CAISO Proposal would not provide additional incentives for entities that do not hold CRRs. Therefore it's unclear how much liquidity the CAISO Proposal can add *in practice*.

In addition, because of the consistent price difference between day-ahead and real-time, an import rebid at a price equal to or lower than day-ahead price still has a good chance to not clear in the real-time market, thus mimic "*implicit virtual bidding*". Therefore, the Proposal has the risk to potentially increase the amount of CRR profit that would otherwise be clawbacked under existing rules where this type of bidding is currently considered manipulative.

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[1] CAISO CRR Clawback modification Issue Paper and Straw Proposal, dated April 13, 2016, available at http://www.caiso.com/Documents/StrawProposal-CongestionRevenueRightsClawbackRuleModification.pdf

[2] For example, the day-ahead price at SP15 is higher than the real-time price in 10 months out of 14 months since Jan'15, p. 12, CAISO Market Performance and Planning Forum meeting material, dated March 17, 2016, available at http://www.caiso.com/Documents/Agenda-Presentation-MarketPerformance-PlanningForum_Mar17_2016.pdf

The CAISO should assess whether its Proposal would bring enough benefit that outweigh the potential risk of increasing CRR profit. For example, the CAISO should look at how much liquidity can be added under the Proposal (e.g., with potentially additional incentives for limited participants that import/export and own CRRs). On the other hand, the CAISO should review historical data on CRR clawback amount due to real-time rebidding and estimate the impact to CRR profit if the Proposal were implemented. To the extent the estimated impact of CRR profit is significant, they should be addressed within the Proposal.

On the second proposed modification, convergence bids at trading hubs (THs) and default load aggregation points (DLAPs) would no longer be exempt from the CRR clawback rule. While SCE strongly supports the CAISO effort in evaluating the CRR clawback rule, in particular to prevent revenue being taken from load serving entities to fund unjustified profit of virtual bidding, SCE requests the CAISO to clarify whether the Proposal was developed due to specific market manipulation concerns, observed or foreseeable, or due to other reasons[3]. Depending on specific reasons for the change, a study that looks at historical liquidity of those THs and DLAPs is likely needed. Similar to a nodal group constraint, such study may need to look at the ratio of physical MWs vs. virtual MWs with a low ratio as an indicator of potential vulnerability to problematic bidding.

[3] Although according to the Issue Paper, at P.7, "[T]he market optimization clears bids at the aggregation point and manages congestion using the shift factor of the aggregation point to constraints. Thus, bids at aggregation points can cause constraints to bind resulting in congestion", the Issue Paper does not mention if there are any other reasons leading to the propose modification.