

## Western Power Trading Forum Comments on CAISO CRR Auction Efficiency Workshop and Stakeholder Process

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WPTF appreciates the ability to submit these comments in response to the CAISO's Workshop on Auction efficiency of in response to the CAISO's December 19, 2017 CRR Workshop and Stakeholder Process meeting. WPTF appreciates the staff's efforts in presenting the analysis. WPTF offers some principled comments followed by more specific feedback on the CAISO's proposed stakeholder process kickoff slides.

### **CRR Auction Rightly Offers CRRs to Market Participants**

The CRR Auction functionality is part of a set of fundamental market design features offering open access to products, liquidity in the markets, and price transparency. While the CRR allocation offers a zero-priced hedge to LSEs, thereby recognizing their investment in the transmission system, the CRR auction allows access to LSEs and non-LSEs alike for the residual capacity. There is no inherent reason why if – for example – a new wind generator locates at the end of a transmission line, the incremental congestion created should be solely for the benefit of the LSE without offering the generator the right to procure in the auction a hedge for its deliveries across that line. Rather transmission capacity beyond that needed for the LSEs' hedges through the allocation is rightly made available to all parties through the CRR auction.

### **A Bilateral Market CRR trading Mechanism is Unworkable in Nodal Market**

WPTF and others have commented on this before. Pre-MRTU a bilateral exchange of rights may have been workable, but in a nodal market where generators are settled at nodal locations and, for example, loads can act as resources and settle nodally, matching buyers and sellers is unworkable. Making the residual system capacity available through the CAISO's simultaneous feasibility test ensures open access to hedges in the most efficient manner.

### **The CRR Process Offers Access to Network Capacity**

The CAISO's analysis suggests that some of the paths parties are requesting in the CRR auction are unusual and do not correspond to any legitimate energy transfers. WPTF cautions against making the mistake that what is of interest in the CRR auction are paths per se rather than capacity on scarce constraints. Because of the complexities of the nodal market it is not

reasonable to expect that one could look at the bids of a CRR participant and deem that some bids are legitimate, and others are not. Instead the CAISO must recognize that the main objective of the CRR auction is to provide open access to hedges across the CAISO grid and that doing so enhances competition, liquidity and transparency. To reduce access to hedges based on some assessment that certain CRRs are legitimate and others not would be an error in the logical understanding of the purpose of the CRR auction mechanism.

### **WPTF Comments on CAISO Stakeholder Process Kickoff**

The CAISO staff at the end of the workshop presented slides offer a straw-person “initiative objectives” of (i) Minimizing net payment deficiency in the CRR auction, and (ii) maintaining market efficiencies associated with ensuring all market participants have the opportunity to obtain congestion hedges. WPTF cautions against the objective of “minimizing the net payment deficiency in the CRR auction”. While WPTF is supportive of remedying the distortions that are contributing to the net payment, striving to minimize the net payment deficiency itself is an overly narrow objective that could result in a net loss to loads. For example, if one left their refrigerator door open in the summer to experience the cooling effect in their kitchen it may be seen as reaching the desired goal of experience a nice ambient temperature where in fact the heating of effect that the refrigerator’s motor then produces would not result in the desired benefit ultimately. To minimize net payment deficiencies is an overly narrow goal that could come at the cost of other market efficiency adverse impacts and raise costs to load serving entities ultimately. We suggest reconsideration of that as an explicit goal.

### **CAISO’s “Solution Space” Fall into a Few Categories**

At the workshop the CAISO indicating that it would be pursuing several operational and transparency actions through its ordinary business practices manual process. WPTF is supportive of these activities.

Additionally, the CAISO proposed several “solution space” items, constituting what could be the stakeholder process “solutions” for consideration. These seem to fit into a few categories; WPTF offers these as manner of considering the ideal process approaches. The categories vary based on how the proposed change would affect the auction and/or the method it would invoke. (Some of the proposed “solution space” items cross more than one of these categories.)

These solution space changes include those that:

1. Is/are likely generally accepted by all as productive<sup>1</sup>;
2. Reduce the adverse impacts of the quality or timing of information flows;
3. Affect cost allocation and/or the capacity release/reserve balance;
4. Limit bidding in some way (E.g., the price one can bid);
5. Limit (or eliminates) auction participation.

WPTF believes that each of these category of items warrants different treatment.

- For example, the category 1 change(s) should be aggressively pursued without the delay.
- The category 2 changes should be considered further in this stakeholder process. In this set would be the consideration for example of a monthly annual auction or a balance of the year CRR auction that could reduce the uncertainty of the year-ahead lack of information.
- Those items of the nature of category 3 - such as derating CRRs - should not be considered until the CAISO measures some indication of how much the modeling improvements reduce the uplifts.
- Lastly, WPTF considers the types of changes of categories 4 and 5 (for example, a category 4 option of creating reserve prices, or a category 5 item of any range of outcomes such as limiting source sink pairs a participant could bid on and up to including full elimination of the auction) to be harmful in that they will damage the liquidity of the auction and/or they will create unintended adverse consequences. Restricting injections and withdrawal nodes could result in less accurate bidding and further create differences between auction clearing prices and DA payouts. Going to a nodal swap market would be entirely unworkable given the complexity of grid. For these reasons such changes should not be pursued.

WPTF looks forward to working with CAISO staff to further focus its CRR auction efficiency efforts and appreciates the opportunity to provide these comments.

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<sup>1</sup> Limiting eligible injections/withdrawals on electrically equivalent nodes in the CRR model is the item that WPTF believes fits within this category.