

Comments of XO Energy CA, LP regarding CRR Auction Efficiency Working Group Meeting

Submitted By	Companies	Date Submitted
Carey Drangula XO Energy Companies 1619 New London Road Landenberg, PA 19350 Phone: (610) 400-3344 E-mail: cdrangula@xo-energy.com	XO Energy CAL, LP	May 2, 2017

XO Energy CAL, LP (“XO Energy”) appreciates the opportunity to comment on the CRR Auction Efficiency Working Group meeting that occurred on April 18, 2017. XO Energy strongly opposes the California Independent System Operator Corporation’s (“CAISO”) Department of Market Monitoring’s (“DMM”) proposal to modify the CRR auction into a market based on bids submitted by entities willing to buy or sell CRRs, and encourages CAISO to perform the additional analysis suggested by Dr. Scott Harvey before modifying the CRR auction process. Furthermore, XO Energy fully supports the comments submitted on behalf of the Financial Marketers Coalition (the “FMC”)¹ as well as the presentation prepared by Ellen Wolfe on behalf of the Western Power Trading Forum (“WPTF”).² Finally, XO Energy agrees that data transparency is critical to efficient market design as well as the elements of any additional analysis to be conducted by CAISO.

1. FERC has Rejected the Argument that the Sole Purpose of the ARR/FTR is to Return Congestion Revenue to Load

XO Energy strongly opposes the DMM’s proposal to modify the CRR auction into a market based on bids submitted by entities willing to buy or sell CRRs. The Federal Energy Regulatory Commission (the “Commission”) stated the following in response to similar arguments made by the Independent Market Monitor of PJM Interconnection LLC in the FTR Forfeiture docket:

We reject the arguments that the sole purpose of FTRs is to return congestion revenue to load and the market should therefore be redesigned to accomplish that directive. FTRs were designed to serve as the financial equivalent of firm transmission service and play a key role in ensuring open access to firm transmission service by providing a congestion hedging function.³

Furthermore, we strongly agree with the FMC’s statement that “[t]his rejection should send a signal to CAISO that the Commission does not agree with the concept of FTRs/CRRs being used

¹ Comments of the Financial Marketers Coalition regarding CAISO 2017 Stakeholder Initiatives Draft Proposal on CRR Auction Efficiency (submitted May 2, 2017)(“FMC Comments”).

² Wolfe, Ellen. *CRR Study Working Group* (April 18, 2017), available at <http://www.caiso.com/Documents/Presentation-EllenWolfeWPTF.pdf> (“WPTF’s Presentation”).

³ *PJM Interconnection, LLC*, 158 FERC ¶ 61,093 at P 27 (2017).

solely as a tool for load and load-serving entities.”⁴

2. Conduct the Analysis Suggested by Dr. Scott Harvey and Supplemented by WPTF’s Presentation

XO Energy strongly supports the position of Dr. Harvey, who suggested that CAISO perform an analysis regarding (i) why load serving entities are not using the CRR as a hedging instrument and (ii) whether the exposure to regulatory risks is preventing load serving entities from acquiring CRRs in auctions. Significantly, as noted in the FMC Comments:

Dr. Harvey notes that the impact of the variability and unpredictability of day-ahead market payouts on the relationship between auction prices and day-ahead market payouts can only be accounted for by examining the relationship over a sufficiently long period of time.⁵

Dr. Harvey encourages CAISO to investigate whether high day-ahead market payouts might be related to differences in loss modeling between the auction and the day-ahead market. As Dr. Harvey points out, there may be external factors impacting the profitability of the CRR auction. Basing the CRR auction success on profitability and the return of all congestion revenues to load is a short-sighted and inaccurate measure of the complexity of the CRR auction process and its multiple uses for market participants.⁶

Furthermore, as noted by WPTF, it would be useful to organize any examination on the size of the gap between day-ahead auction payouts and auction revenues, whether it be by analyzing monthly to day-ahead gaps or annual to monthly premiums.⁷ In addition, XO Energy agrees that examining gaps on a constraint by constraint basis as well as identifying the categories of causes for gaps may be useful.⁸ XO Energy supports WPTF’s recommendation to include the following points in any forthcoming analysis:

- The time sequence of the gap and correlation with other market and operational changes.
- The time sequence of constraints that are not modeled in one monthly auction, but are modeled in subsequent monthly auctions.
- An analysis of liquidity, in particular, participation levels and how they have changed over time.
- The volatility of day-ahead constraint shadow prices and its predictability over time.
- The other pieces of the Tetris Block, including the value of the CRRs given to load-serving entities.⁹

⁴ FMC Comments at 2.

⁵ Id. at 3.

⁶ Id.

⁷ WPTF’s Presentation at 13.

⁸ Id.

⁹ Id. at 15.

3. Transparency is Critical to Efficient Market Design as well as the Elements of any Analysis Conducted by CAISO

As highlighted in the presentation of DC Energy, transparency is critical to efficient market design as it:

Allows resource owners to better understand and mitigate the deliverability risk of energy schedules, i.e. constraints caused by an outage or ISO operational practices might impact the ability of a resource to source contracted energy.

Transparency fosters competition and prices that reflect underlying market risks. Transparency into the fundamental drivers of energy prices allow market participants to compete for investment opportunities and rationalize the cost of products between ISO sequential markets.¹⁰

XO Energy agrees that transparency is critical to accurate price formation; a lack of transparency creates additional future price risk that market participants are forced to discount. More specifically, if CAISO intends to limit the availability of known transmission outages, withholding this information will have the effect of discounting the forward bid prices. XO Energy strongly supports the inclusion of a quantifiable study of this phenomenon in any analysis that is conducted.

Nodal group constraints represent another critical area of accurate price formation that falls victim to the lack of operational transparency. By their nature, nodal group constraints appear to be both random and arbitrary to market participants; the circumstances pursuant to which they are enforced is part of an opaque process that requires illumination.

Finally, a comprehensive analysis of market concentration and liquidity should be examined comparing CAISO's CRR market with the forward transmission market constructs of the other ISOs.

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If you have further questions or would like to discuss these comments, please do not hesitate to contact Carey Drangula at (610) 400-3344 or cdrangula@xo-energy.com.

Dated: May 2, 2017.

¹⁰ DC Energy. *Congestion Revenue Rights Study – CRR Analysis Working Group at 2* (April 18, 2017), available at <http://www.caiso.com/Documents/Presentation-SethCochranDCEnergy.pdf>.