

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System) Docket No. ER18-2034-000
Operator Corporation)**

**MOTION TO INTERVENE AND COMMENTS
OF THE DEPARTMENT OF MARKET MONITORING
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. §§385.212, 385.214, the Department of Market Monitoring (DMM), acting in its capacity as the Independent Market Monitor for the California Independent System Operator Corporation (“CAISO”), submits this motion to intervene and comment in the above captioned proceeding.

I. COMMENTS

Since the CAISO’s congestion revenue rights (CRR) auction started in 2009, transmission ratepayers have lost over \$795 million from CRRs sold in the auction, including over \$100 million in 2017 and \$60 million through the second quarter of 2018. On average, ratepayers have only received 50 cents in auction revenues per dollar they paid out to CRRs purchased in the auction. In this proceeding the CAISO has filed the second of two proposals to address this “auction revenue shortfall” and protect transmission ratepayers under its CRR Auction Efficiency Track 1 stakeholder process.

DMM supports the CAISO's proposal. In 2014 DMM recommended that the ISO consider an approach similar to the CAISO's Track 1B proposal.¹ The CAISO's proposed Track 1B changes, combined with the Commission approved Track 1A changes, will create some protections for transmission ratepayers while continuing to provide a forum for market participants to purchase CRRs between "delivery pair" locations. DMM supports the Track 1A and Track 1B tariff changes as significant incremental improvements to the current CRR auction design. However, as DMM explained in its June memorandum to the CAISO Board, DMM recommends that the CAISO continue considering markets based on willing buyers and sellers during Track 2 of this initiative.²

Implementation of CAISO's Track 1B proposal does not negate the need for the Track 1A changes approved by the Commission. For any given constraint, there are likely to be "non-delivery" source and sink node pairs that could be used to receive much larger shares of the constraint's congestion rents than "delivery pair" nodes. Without the Track 1A changes, a market participant could search for "non-delivery" source and sink pairs that are inexpensive in the auction relative to CRRs between "delivery pair" nodes. Although all CRRs would pay the same price for the constraint in the auction, the "non-delivery" CRRs could clear at a lower price because they could avoid other binding constraints that the "delivery pair" CRRs

¹ *Allocating CRR Revenue Inadequacy by Constraint to CRR Holders*, Department of Market Monitoring, October 6, 2014: <http://www.caiso.com/Documents/AllocatingCRRRevenueInadequacybyConstrainttoCRRHolders-DMMWhitePaper.pdf>

² See Attachment H to the CAISO's filing in this proceeding: CAISO ER18-2034 *Tariff Amendment to Increase Efficiency of Congestion Revenue Rights Auctions*, Attachment H – Department of Market Monitoring Comments, July 18, 2018.

cannot avoid. Without the Track 1A changes, a participant could target CRRs to increase their share of congestion rents while reducing the share paid to “delivery pair” CRRs. While the Track 1B proposal would limit the total revenues a participant could receive from the targeted constraint, a participant could potentially transfer much of the congestion rent from participants with CRRs between “delivery pair” nodes to himself. The Track 1A changes limit this potential and therefore continue to be just and reasonable enhancements to the CRR auction design.

II. MOTION TO INTERVENE

DMM respectfully requests that the Commission afford due consideration to this motion to intervene and comment, and afford DMM full rights as a party to this proceeding. The mission of DMM – like that of all Independent Market Monitors – is as follows:

To provide independent oversight and analysis of the CAISO Markets for the protection of consumers and Market Participants by the identification and reporting of market design flaws, potential market rule violations, and market power abuses.³

The CAISO tariff states that “DMM shall review existing and proposed market rules, tariff provisions, and market design elements and recommend proposed rule and tariff changes to the CAISO, the CAISO Governing Board, FERC staff, the California Public Utilities Commission, Market Participants, and other interested

³ CAISO Tariff Appendix P, Section 1.2.

http://www.caiso.com/Documents/AppendixP_CAISODepartmentOfMarketMonitoring_asof_Apr1_2017.pdf.

See also FERC Order 719, at p. 188, where the functions of a Market Monitor include: “evaluating existing and proposed market rules, tariff provisions and market design elements, and recommending proposed rule and tariff changes not only to the RTO or ISO, but also to the Commission’s Office of Energy Market Regulation staff and to other interested entities [...]” <https://www.ferc.gov/whats-new/comm-meet/2008/101608/E-1.pdf>

entities.”⁴ As this proceeding involves tariff provisions which affect the efficiency and the just and reasonableness of the ISO’s markets, it implicates matters within DMM’s purview.

III. CONCLUSION

DMM respectfully requests that the Commission afford due consideration to these comments as it evaluates the proposed tariff provisions before it.

Respectfully submitted,

/s/ Eric Hildebrandt

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Dated: August 7, 2018

⁴ CAISO Tariff Appendix P, Section 5.1.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 7th day of August, 2018.

/s/ Anna Pascuzzo
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