Pacific Gas and Electric Company®

Comments of Pacific Gas & Electric Company related to CAISO's Straw Proposal on CRR Clawback Rule Modification

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) appreciates the opportunity to submit comments related to the California ISO's April 13th straw proposal on modifying the Congestion Revenue Rights (CRR) Clawback Rule.

Summary

The ISO has proposed two modifications to the Congestion Revenue Rights (CRR) clawback rule (a rule that exists to prevent market participants from using convergence bids to boost the value of their CRRs). The first modification relaxes the clawback rule related to imports/exports, as the ISO is hoping to increase 15 minute market intertie liquidity. The second modification expands the clawback rule to cover convergence bids on Load Aggregation Points (LAPs) and hubs.

PG&E generally supports both modifications but with the following caveats:

1. With respect to the first modification (imports/exports), PG&E requests that the ISO clarify how its proposal will account for day-ahead price corrections, which are published on T+5. More specifically, PG&E requests that the ISO confirm the following: day-ahead price corrections will not be used to determine whether a real-time import/export bid is subject to the clawback rule.
2. With respect to the second modification (convergence bids on LAPs and hubs), PG&E requests that the ISO consider the following: conducting a periodic review of the LAPs/hubs to identify those LAPs/hubs that have sufficient liquidity and shift factor diversity to remain exempt from the CRR clawback rule.

1. Imports and Exports

Imports and exports that are economically cleared in the day-ahead market and then rebid in real-time at extreme prices can behave like virtual transactions. For this reason, such transactions are known as "implicit virtual transactions," and they are currently subjected to the clawback rule. Through its straw proposal, the ISO is proposing to allow the following import/export bids in the 15 minute market to be exempt from the clawback rule (assuming that all of the imports/exports have submitted day-ahead e-tags):

- Import bids that are less than or equal to the day-ahead price
- Export bids that are greater than or equal to the day-ahead price

The ISO's logic is that the import/export bids listed directly above should not be considered implicit virtual transactions, since there is no guarantee that the import/export will be reduced in real-time.

PG&E generally supports this proposal but requests that the ISO clarify how its proposal will account for day-ahead price corrections, which are published on T+5. For example, assume that an import clears at $30 in the day-ahead market and is then re-offered in real-time at $28. At the time the real-time offer is made, the import transaction would be considered exempt from the clawback rule. However, if the day-ahead price is later corrected to $27, the import transaction could (retrospectively) be subject to the clawback rule, an outcome that seems inconsistent with the spirit of the ISO's proposal to provide clear rules. Accordingly, PG&E requests that the ISO modify its proposal to confirm the following: day-ahead price corrections will not be used to determine whether a real-time import/export bid is subject to the CRR clawback rule.

2. Convergence Bidding at Load Aggregation Points and Trading Hubs

Today's ISO tariff exempts convergence bids at Load Aggregation Points (LAPs) and hubs from being subjected to the CRR clawback rule. The logic behind this exemption is that many LAPs and hubs are sufficiently liquid to mitigate the risk of market participants using convergence bids to boost CRR payments.

Through its straw proposal, the ISO is proposing to remove the exemption for LAPs and hubs, thereby subjecting all convergence bids to the clawback rule. PG&E strongly supports preventing market participants from using convergence bids to boost the value of their CRR positions, and so PG&E supports the spirit of the ISO's proposed modification. However, PG&E is not yet convinced that all LAPs and hubs pose a sufficient risk to be subjected to the clawback rule. On that note, PG&E requests that the ISO conduct a periodic review of the LAPs/hubs to identify those LAPs/hubs that have sufficient liquidity and shift factor diversity to remain exempt from the CRR clawback rule (i.e., remain on the "exemption list").

More specifically, PG&E suggests that the ISO keep track of the following: virtual transactions on the LAPs/hubs and the number of hourly intervals during which such transactions (through shift factors) cause flow impacts of 10% or more on any of the associated transmission constraints (for short, we will call such impacts "infractions"). Then, on a periodic basis (quarterly or annually), PG&E recommends that the ISO review the data it has been tracking and compare the number of infractions for each LAP/hub against a pre-determined threshold. If the threshold is exceeded, then that specific LAP/hub should be subjected to the clawback rule going forward (i.e., it should be removed from the exemption list). Importantly, the ISO should consistently publish both the threshold and the updated exemption list. In addition, the ISO should reserve the right to remove LAPs/hubs from the exemption list under emergency circumstances if warranted by market conditions.

PG&E believes that the method outlined above will encourage the use of convergence bids and CRRs in the intended manner for which they were designed.