

March 20, 2018

David Olsen, Board Chairman
Ashutosh Bhagwat, Governor
Mark Ferron, Governor
Angelina Galiteva, Governor
Richard Maullin, Governor

Members of the Board of Governors
California Independent System Operator
Folsom, California

To the Board of Governors of the California Independent System Operator:

Re: Congestion Revenue Rights Track 1A Draft Final Proposal

Calpine Energy Solutions, LLC (“Calpine Solutions”), takes this opportunity to express its support for certain elements of the CAISO’s Congestion Revenue Rights Auction Efficiency Track 1A Draft Final Proposal Addendum, issued on March 8, 2018. Calpine Solutions is a nonutility load-serving entity providing direct access services in seventeen states, including California. As a load-serving entity participating in the markets organized and administered by the CAISO, Calpine Solutions receives an allocation of annual and monthly congestion revenue rights (“CRRs”) from the CAISO, and also participates in the annual and monthly CRR auctions. Calpine Solutions has actively participated in the stakeholder process conducted by the CAISO regarding the efficiency of the CRR auction process and will be directly affected by the proposals under consideration by the Board.

Calpine Solutions supports certain elements of the Track 1A Draft Final Proposal, but urges the Board to table or reject other elements until a more complete record as to need, benefits and consequences has been developed. Our recommendations regarding the elements of the Track 1A Draft Final Proposal are set forth below.

Calpine Solutions strongly supports the proposal to establish additional annual outage reporting requirements using timelines aligned with the annual CRR allocation and auction processes. Calpine Solutions believes this proposal will greatly improve the timeliness and accuracy of the transmission outage and availability information upon which the CAISO relies in the modeling of the CAISO transmission network which underlies the CRR allocation and auction processes. These improvements should address the revenue deficiencies the CAISO has been studying to a considerable degree and urges the Board to approve this proposal.

Calpine Solutions also supports the CAISO’s decision to remove its earlier proposals to (1) eliminate the disclosure of certain CRR model information and (2) reduce the percentage of system capacity available in the annual CRR allocation and auction processes from consideration. Calpine

Solutions did not believe either of these changes were warranted and was concerned they would have had potentially harmful consequences.

Next, Calpine Solutions strongly opposes the Track 1A Draft Final Proposal to eliminate CRRs that source at one generation point and sink at another generation point. Calpine Solutions does not believe the CAISO has developed sufficient evidence to demonstrate that these transactions do not provide competitive or counterflow value in the auctions. To the contrary, Calpine Solutions believes the opportunity to bid generation-to-generation pairs provides a means by which to hedge price volatility between certain supply and delivery nodes that would not otherwise be available if these pairs were eliminated from the auctions and, as a result, that eliminating generation-to-generation pairs will reduce participation in and the value that can be derived from the CRR auctions. If the CAISO believes it is necessary to eliminate low-value pairs from the CRR auctions in order to address the revenue deficiencies arising from the auction process, Calpine Solutions submits that a more appropriate and targeted limitation would be to remove bids on electrically equivalent settlement location pairs prior to clearing the CRR auctions, an approach consistent with the processes used by other regional transmission organizations, including ERCOT, PJM Interconnection and the SPP. These paths tend not produce value in the auctions and bidding on these paths chronically contribute to the auction revenue deficiency. This more targeted approach was raised during the stakeholder process leading to the Track 1A Draft Final Proposal and should be considered in lieu of the limitation now before the Board. Finally, in lieu of the Track 1A Draft Final Proposal to eliminate generation-to-generation pairs from the CRR auctions, the Board could implement the bid validation process proposed by the Market Surveillance Committee (“MSC”). Under the MSC’s proposal, a CRR holder could only submit a generator-to-generator CRR bid for a CRR sinking at the source of a generator to a load aggregation point, a generator to a tie, or a generator to a trading hub CRR held by the market participant submitting the bid. But eliminating generation-to-generation pairs from the CRR auction altogether, without additional study or discussion, plainly puts the solution before the problem, if there is any problem left to solve after addressing the timely submittal of transmission outage information also proposed in the Track 1A Draft Final Proposal. As Calpine Solutions argued throughout the stakeholder process, improving the transmission outage information used to model the CAISO network for the purposes of the CRR process may sufficiently reduce the revenue deficiency to the point where additional changes to the CRR auction may be unnecessary, making the rush to make further changes, particularly those limiting or constraining the CRR auctions, superfluous at best or imprudent at worst.

Calpine Solutions is relieved to see that the CAISO is moving in the direction of taking thoughtful, measured steps to address the revenue deficiency experienced in the CRR auctions. Hopefully, the notion addressed during the stakeholder process to replace the CRR auction process with a bilateral market has been laid to rest. The reasoning behind the proposal to implement a bilateral CRR market in lieu of an auction was fundamentally flawed on many levels. The CAISO asked market participants attending the December 19, 2017, workshop a simple but very important question: why does an active bilateral market for CRRs not already exist? The answer is equally simple and important: there is insufficient auction activity in the CAISO markets to support a bilateral market for CRRs, contrary to the case in eastern power markets. The CAISO’s CRR auction design does not go far enough to facilitate hedging of energy contracts of varying tenors entered by and between suppliers and load-serving entities, particularly those competitive load-serving entities serving direct-access customers. A robust CRR auction is a necessary precursor of effective bilateral CRR markets and to implement the latter without the former would doom bilateral markets to failure. The CRR auctions provide essential and necessary “physical guidance” for expected transmission congestion and suppliers would charge higher risk premiums for hedging basis risk if the CRR auctions did not exist. The CAISO should first focus its attention on expanding and deepening the

CRR auctions, as described below, and allow bilateral markets to develop organically, rather than replace the CRR auctions with bilateral markets that are likely to be illiquid and unguided.

As the CAISO proceeds to Tracks 1B and 2 of this process, ***Calpine Solutions strongly recommends that the CAISO take steps to further expand the auction process*** by providing for more frequent auctions and adding new CRR instruments with varying tenors to the CRR mix. CRRs serve a valuable purpose for market participants and improve the competitiveness of the markets organized and administered by the CAISO. The CAISO should be seeking to improve, rather than constrain, the use and availability of CRRs in service of CAISO market participants and market competition. As pointed out by the MSC, a one percent efficiency gain in the overall multi-billion dollar CAISO energy market would dwarf the CRR auction revenue deficiency being addressed here and the CAISO, rather than placing limits on efficiency-enhancing CRR auctions, should be moving in exactly the opposite direction so as to optimize the efficiency gains that can be realized from CRRs.

Respectfully submitted

/s/ Justin Pannu

Justin Pannu

Director of Operations, West Power Desk

Calpine Energy Solutions, LLC
401 West A Street, Suite 500
San Diego, California 92101

619.684.8182

justin.pannu@calpinesolutions.com

cc: Milos Bosanac (mbosanac@caiso.com)
Stacey Karpinen (skarpinen@caiso.com)
James Bishara (jbishara@caiso.com)