



March 22, 2018

Chair David Olsen
Governor Ashutosh Bhagwat
Governor Mark Ferron
Governor Angelina Galiteva
Governor Richard Maullin
California Independent System Operator
Folsom, California
Via email to James Bishara JBishara@caiso.com

RE: California ISO Draft Final Proposal for Congestion Revenue Rights Auction Efficiency

Dear Board of Governors,

DC Energy appreciates the opportunity to provide comments on the California ISO's ("CAISO's") Draft Final Proposal for Track 1a changes in the Congestion Revenue Rights ("CRR") Auction Efficiency initiative. We participated in the CRR Working Group meetings and provided written comments and presentations that proposed ways to improve the CRR auctions. While the stakeholder process has brought forward many different ideas and positions on the issues, we believe the CAISO's Draft Final Proposal will fall short of improving the current CRR auction, and, in fact, may be net harmful to the CAISO market as a whole. Throughout the process, the CAISO's focus has been on ways to reduce net payment deficiency. We agree that, over time, it is a desirable outcome for CRR auction price discovery to efficiently reflect congestion rents (and, therefore, fund CRR Auction Revenue Distribution). Accordingly, we support the CAISO's Track 0 action plan to immediately correct modeling deficiencies. These improvements address the root cause of net payment deficiency and could be coupled with targeted CRR pair restrictions that are currently operating in ERCOT, PJM, and SPP. We submit it is prudent to assess the impact of these changes on CRR efficiency before jumping ahead to the major restrictions to CRR auction pairs proposed in the Draft Final Proposal. The restriction to "non-delivery" pair CRRs would reduce auction participation and competition and dilute price signals by adding barriers to CRR participation. DC Energy and other stakeholders have offered a better path forward where greater auction efficiency can be achieved while upholding the current level of robust participation and competition. At this stage we believe the best near-term course of action is three-fold:

- 1) Continue to improve the CRR modeling (CAISO Track 0)
- 2) Eliminate CRR pairs on electrically equivalent paths, as these paths are not able to produce value in the CRR auctions and, therefore, contribute to net payment deficiency. This approach is currently operating in ERCOT, PJM, and SPP.
- 3) Assess the impacts of the modeling improvements and electrically equivalent pair restrictions to determine what next steps, if any, are needed.

- 4) Concurrently, review proposals to expand the current CRR auction structure to include more frequent auctioning. CRR balancing auctions are conducted in the PJM, MISO, and NYISO markets, and could be utilized to promote CRR auction efficiency. These auction structures can help rationalize CRR clearing prices since all market participants would benefit from more up-to-date pricing and constraint information. In addition, they provide a unique opportunity to strike the right balance between CRR auction capacity releases and CRR revenue adequacy.

DC Energy remains committed to improving the CRR auction and we urge the Board today to bring reason to the process by seeking an assessment of the Track 0 changes before rushing ahead to major changes. This incremental policy approach would avoid an outcome where needless restrictions are imposed and maximum efficiency cannot be achieved. We submit that this approach (in tandem with a policy to eliminate electrically equivalent CRR pairs) is the best path forward for the near term. We appreciate the Board's attention on these matters and look forward to continuing to participate in the process.

DC Energy

Sincerely,

Seth Cochran

Seth Cochran
Manager, Market Affairs and Origination