

LSEs in Support of Market Efficiency and the CRR Auction

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Chairman Olsen, Governors Bhagwat, Ferron, Galiteva, and Maullin
(delivered via email)

Dear Chairman Olsen, Governors Bhagwat, Ferron, Galiteva, and Maullin:

The LSEs in Support of Market Efficiency and the CRR Auction (LSE - CRR Auction Supporters) is a coalition of non-IOU LSEs and includes organizations such as: Alliance for Retail Markets, Arizona Electric Power Cooperative, Just Energy Solutions Inc., Shell Energy North America (US), L.P., Calpine Energy Solutions, and Valley Electric Association, Inc.

Our coalition supports maintaining the current CRR auction, while making revisions that improve performance and revenue sufficiency. The DMM's proposal to dismantle the CRR auction and implement an approach that centers on bilateral trading only is supported by IOUs as well as other LSEs that have assured cost recovery and do not actively use the auction. The CAISO's proposal before you today correctly rejected that approach and takes an important step toward improving the revenue sufficiency of the CRR auction by calling for more rigorous transmission outage reporting which its own data shows will address a large portion of that issue. However, we wish to raise your awareness that there are many LSEs that will be adversely affected by the element of the CAISO's proposal that overly restricts source-sink pairs in order to minimize the uplift portion of the CRR auction at the expense of dismissing the other benefits of the CRR processes.

The LSE - CRR Auction Supporters rely on the CRR auction for managing the price risks associated with purchasing and scheduling energy to serve our customers. As non-IOU LSEs, we do not have the regulatory cost recovery protections that the IOUs and certain other LSEs have, and we must manage our exposure to congestion costs and rely on the CRR auction market-based hedging mechanism to do so.

To encourage open access and market participation we have three requests of the board for this March board meeting.

1. The Board should support the CAISO staff and MSC rejection of SCE and DMM proposals to abandon the CRR auction.
2. The Board should approve the CAISO staff recommendation to modify transmission outage scheduling.
3. The Board should not approve the CAISO staff recommendation to remove the vast array of biddable source-sink points they have proposed to remove from the CRR auction and instead should limit the reduction in biddable points to electrically equivalent, and zero-price, node pairs.

These requests are detailed further below.

1. Support the CAISO Staff and MSC rejection of SCE and DMM proposal to abandon the CRR auction

LSE – CRR Auction Supporters urge the board to preserve the fundamental nature of the CRR auction, allowing open access to forward hedging for all parties, and to reject the SCE and DMM proposals to convert the CRR auction essentially to a bulletin board that would only clear “willing buyers and sellers.” The LSE – CRR Auction Supporters deserve equal rights to hedging capacity on the network following the allocation process and the access to this transmission congestion hedging capacity should continue to be made available to us and our suppliers in order to best manage the cost of delivered energy.

2. Approve the recommendation to modify transmission outage scheduling

The staff’s analysis showed that “late or missed outages and constraints in the CRR auctions [were] the primary driver for revenue shortfalls and large net CRR payments to auction CRRs.” [CRR auction analysis report page 2] Remedying this deficiency in the CRR modeling is critical. We entirely support the CAISO’s proposal to enhance outage reporting and would support additional measures on compliance to ensure that transmission outage reporting is transparent and that failure to comply with the outage scheduling requirements carries significant consequences.

3. Reject broad proposal for removal of biddable points, limiting instead to removing electrically equivalent and zero-priced pairs

The staff proposal to remove the vast array of biddable points is overly broad and we ask the Board to direct the CAISO staff to modify it. Today’s transactions require new and different ways of doing business. A particularly relevant example of this is the shift in LSEs’ portfolios to comply with the state’s goals to increase levels of renewables. LSEs need ways to source power from one resource while ensuring there is backup supply from other resources, for example, when a renewable resource is not producing. We rely on CRRs for this purpose, as do our counterparties, in order to reduce to the greatest extent possible, the costs of such arrangements. We believe that the market – not the CAISO – should determine whether a particular combination of source and sink nodes is of value. For instance, LSEs may not bid on generator-to-generator CRRs, they do derive value from them because they allow our generation counterparties to manage their risks and therefore provide a potentially lower cost energy supply.

We are further concerned that such a large reduction in functionality, coincident with improvements in modeling, may mask or undermine the benefits of the other modeling changes the CAISO is pursuing in both its Track 0 and its other Track 1.a proposal element. Again, conforming the models is, according to the ISO’s analysis, the biggest opportunity for closing the CRR revenue shortfall. These benefits will be substantial, and they may even mask dis-benefits of adversely affecting auction liquidity by removing too many biddable nodes. These changes should not be pursued simultaneously. Rather, the ISO should implement the modeling enhancements and validate benefits before considering or implementing these potentially harmful broad reductions in biddable locations.

Rather than eliminating all the generator-to-generator points and other important hedges, such as those associated with hub-to-hub hedges, the CAISO should instead remove electrically similar pairs. Eliminating electrically similar pairs is an accepted practice that has been implemented by other ISOs and RTOs as an effective way to limit bidding on pairs that only pay out in extreme situations.

The LSEs for CRR Auctions appreciate this opportunity to heighten the Board's awareness that there are many non-IOU LSEs operating in the CAISO who rely on this important market-based hedging mechanism to manage our customers' costs; and we appreciate your consideration of the recommendations made herein.

Sincerely,

Kallie Wells

Representative of LSEs in Support of Market Efficiency and the CRR Auction

(delivered via email)