

March 16, 2018

CAISO Board of Governors
CALIFORNIA ISO
PO Box 639014
Folsom, CA 95763-9014

Dear Members of the Board:

I am writing to express Powerex's support for the Congestion Revenue Rights (CRR) Track 1a proposal. The proposal represents substantial, pragmatic steps to improve the performance of the existing CRR framework and auction process while preserving open access to the CAISO transmission system on a forward basis.

The performance of the CRR framework has been a contentious issue, with stakeholders expressing a wide range of views. Entities—primarily financial market participants—that have derived financial gain from the deficiencies in the existing design have sought to preserve the *status quo*. Conversely, some California utilities, as well as the Department of Market Monitoring (DMM), have sought to use the legitimate concerns regarding the performance of the CRR framework and auction process to advocate that the auctions effectively be eliminated altogether, with CAISO issuing CRRs exclusively to California load-serving entities.

CAISO's Track 1a proposal avoids these extreme positions. The proposal recognizes that the CRR auctions regularly results in large numbers of CRRs being sold at low prices (or for free) but that provide substantial congestion revenues to the purchaser—resulting in a significant transfer of value, often with no discernable efficiency benefit. In terms of specific solutions, the proposal focuses on enhancements that can be implemented quickly and are reasonably anticipated to improve outcomes, while continuing to make CRRs available—to all market participants—to support forward contracting for physical electricity supply.

The key feature of CAISO's proposal is the limitation on eligible CRR source-sink pairs, designed to prevent the sale of "non-delivery point" CRRs. CAISO's proposal is supported by the Market Surveillance Committee (MSC), which found that "[t]he logic behind this restriction is strong: non-delivery pair CRRs account for the vast majority of the auction revenue shortfall."¹ The MSC further found that the proposed changes "preserve the ability of non-LSEs to directly access the ISO-backed CRR market in order to hedge sales to load serving entities at LAPs or trading hubs[.]"²

¹ CAISO Market Surveillance Committee Opinion on Congestion Revenue Rights Auction Efficiency, Draft of March 13, 2018, at 17. (Internal citation omitted)

² *Id.* at 22.

The CAISO's proposal and the MSC's opinion also reinforce the longstanding principle that the primary purpose of CRRs is to support forward contracting, and must be available to all types of market participants. The MSC expressly cautioned that eliminating the availability of CAISO-backed CRRs through the auction, such as is proposed by DMM and SCE, "would be counter to the open access principles that motivated the creation of congestion revenue rights as a hedge in the first place[.]" warning that "replacement hedges would likely be available only at a much higher prices for market participants who do not participate in the free allocation stage of CRR allocation[.]"³

Powerex respectfully requests that the Board express its continued commitment to transmission open access principles and to approve the CAISO's Track 1a proposal.

Sincerely,



Mike MacDougall
Director, Trade Policy & IT
Powerex Corp

³ *Id.* at 22.

