

DC Energy Comments on 2017 Policy Initiatives Roadmap

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DC Energy appreciates the opportunity to provide comments on the California Independent System Operator (“CAISO”), December 15, 2016 Final Draft 2017 Policy Initiatives Roadmap (“Roadmap”).

We generally support the CAISO’s stakeholder initiatives catalog process; however, we believe improvements are needed in the area of transparency. The insight provided by the CAISO for the initiative rankings fell short of expectations, especially for a process that determines the yearly work plan for discretionary market improvements. Our concern is evident for the Congestion Revenue Rights Auction Efficiency initiative, wherein the following narrative was provided:

“Congestion Revenue Rights Auction Efficiency – The ISO highly ranked this initiative due to the concerns raised by the ISO’s Department of Market Monitoring. The ISO plans to conduct further analysis on the potential drivers of the potential CRR auction inefficiencies prior to formally launching the stakeholder initiative. The analysis will help the ISO to identify the scope of issues to be addressed in the initiative.”

The CAISO’s ranking table is based on a composite score comprised of six metrics within the categories of feasibility and benefits. The explanation above does not provide any details supporting its high ranking; rather it explains that the initiative was selected due to the concerns raised by the CAISO’s Department of Market Monitoring (“DMM”). DC Energy appreciates the need for CAISO consideration of DMM’s input; however, on its face, it appears that one stakeholder’s views were considered for its ranking, despite the volume of diverse comments received. The current level of transparency in the formulation of the CAISO’s rankings raises the question of whether the ISO’s decision making process is truly comprehensive and inclusive of all stakeholder feedback. We are especially concerned with the potential this has of distracting the ISO from other important discretionary initiative work for the upcoming year. As the Roadmap is carried out for 2017, DC Energy requests that the CAISO avoid the danger of being sidetracked on what could be an illusory or, at best, ill-defined problem whose perceived ailments are likely to be overwhelmed by the negative side-effects of a purported cure.

The CAISO noted during the December 22nd Draft Policy Roadmap meeting that the proposed CRR Auction Efficiency initiative would include an analysis of the potential drivers of market inefficiencies, which would then be used to determine the scope of the initiative. DC Energy believes it is imperative that the analysis is defined with

stakeholder input in a process that is inclusive to all stakeholders in an open forum. The recent focus of DMM input on the CRR market has been centered on its perceived shortcomings and significantly less attention has been given to its benefits; furthermore, little attention has been placed on potential opportunities to enhance the existing framework to specifically address perceived shortcomings. There are many stakeholder and market perspectives on the state of the CRR market and the CAISO would be best served in considering the issues comprehensively when analyzing the CRR market performance. One important feature to the current CRR market design is that it provides a superior opportunity for both price discovery and hedge acquisition as compared to a bilateral market. An entity seeking a hedge in the bilateral market might find it challenging or impossible to connect with a willing seller for an exact path; however, within the current CRR auction structure, network capacity is available to any qualified stakeholder, enabling liquidity and multi-party reconfiguration of electrical-location-specific (e.g., “nodal”) hedges. This is especially important in the nodal market design where all stakeholders are exposed to risk at the “nodal” level. CRRs are the only consistently available hedging vehicles to manage risk between nodes and the several, bilaterally-available electricity pricing points. We wish to emphasize that it is crucial for the CAISO to account for all aspects of the electricity wholesale market, including its benefits and improvement areas, in order to have a meaningful basis on which to contemplate CRR auction improvements. We look forward to working with the CAISO on the upcoming market initiatives in 2017.