Comments on Congestion Revenue Rights Enhancements Issue Papers

Department of Market Monitoring
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Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Congestion Revenue Rights Enhancements Issue Papers*.[1] DMM continues to recommend that the ISO develop a congestion revenue rights (CRR) auction design based on willing sellers, and that development of such an approach be the top priority for the current congestion revenue rights enhancements initiative. DMM also provides comments on some of the other aspects from the issue papers.

Comments

Shift factor thresholds

During the stakeholder calls, there was discussion of changing the shift factor thresholds used in the day-ahead market as a means of improving alignment between the CRR model and the day-ahead model. The thresholds remove shift factors, which are linear DC approximations of the change in power flows from injections at a node, when those shift factors fall below the threshold. As explained by ISO staff, the thresholds are in place to ensure that the day-ahead market operates efficiently and that small estimated shift factors do not create problems obtaining a stable day-ahead market solution.

This is not a new issue. DMM does not know what the best threshold levels are, but clearly the overriding priority in setting the thresholds should be what is best for the operation of the day-ahead market. Creating detrimental impacts to the day-ahead market in an attempt to marginally improve a fundamentally flawed CRR auction design would not be appropriate.

The ISO might also consider putting shift factor thresholds into the CRR model. It would make sense to align the thresholds between the CRR and day-ahead model if there were no other modeling differences. But because there are other modeling differences, it is unclear if this would help or hurt. Removing shift factors in the CRR model that are below the threshold could allow more CRRs to clear. And a shift factor may be below the threshold in the auction but above the threshold in the day-ahead market, creating a profitable modeling difference.

[1] *Issue Paper and Straw Proposal on Product Definition - Congestion Revenue Rights Enhancements*, California ISO, December 12, 2025: https://stakeholdercenter.caiso.com/InitiativeDocuments/Issue-Paper-and-Straw-Proposal-Congestion-Revenue-Rights-Enhancements-Dec-12-25.pdf

Issue paper on Revenue Adequacy and Auction Efficiency Enhancements - Congestion Revenue Rights Enhancements, California ISO, January 14, 2026: https://stakeholdercenter.caiso.com/InitiativeDocuments/Issue-Paper-Revenue-Adequacy-and-Auction-Efficiency-Enhancements-Congestion-Revenue-Rights-Enhancements-Jan-14-2026.pdf

Pumped storage hydro eligibility for allocated CRRs

CalCCA pointed out on the last stakeholder call that pumped storage hydro resources are eligible for allocated CRRs even though the pump loads do not pay transmission access charges (TAC). DMM agrees with this observation, but we note that prior to the ISO's tariff changes to comply with FERC Order 841, pumped storage hydro resources paid TAC associated with pumping load. The ISO's Order 841 compliance filing implemented tariff changes to exempt pumped storage hydro resources from TAC on the basis that other storage resources do not pay TAC.[2] However, that filing does not address the topic of allocated CRRs, which applies uniquely among storage types to pumped storage hydro resources. Therefore, it is unclear if the continued eligibility of pumped storage hydro resources to receive allocated CRRs without paying TAC was an intentional market design choice, or simply an oversight. The ISO should clarify the intent of the Order 841 compliance filing was for pumped storage to be eligible for allocated CRRs even after being exempted from TAC.

CalCCA also noted on the stakeholder call that pumped storage hydro resources are currently eligible CRR sinks in the allocation, suggesting that this logic be extended to other storage resource types. We note that making storage nodes eligible sinks in the allocation and counting pumping/charging load as eligible load for allocated CRR nominations are separate questions.

Minimum prices and bids

DMM continues to believe that it is not appropriate for the ISO to sell products that clearly impose costs on ratepayers with a zero dollar offer price. It is not clear to DMM that it is sound market design for the ISO to intervene to alter or restrict the "buy" bids in an attempt to fix problems created by the ISO intervening with $0 sell offer prices. Further, the minimum bid price and minimum CRR price described in the paper both appear to suggest a single value across all CRRs. While technically better than $0 offer prices, such a blunt bid/price floor, seems unlikely to be very effective.

DMM does not believe the ISO should continue selling financial contracts that are backed by ratepayers – and continually sell for a fraction of the payouts made by the ISO for these contracts. However, should the ISO continue to do so, then it should at least seek to offer these contracts thoughtfully rather than blindly offering contracts at $0. Rather than a simplistic blanket minimum offer price, this would require considering what the cost of selling particular contracts/constraints are, and setting the offer price to those estimated costs. The ISO does not have the expertise and resources to do this. Rather than being a seller of financial contracts, the ISO should limit its role to being a market maker for willing sellers and buyers of such contracts.

DMM continues to recommend a CRR auction based on willing sellers

DMM continues to recommend that the ISO develop a CRR auction design based on willing sellers, and that development of such an approach be the top priority for the current congestion revenue rights enhancements initiative. Such an approach would directly address the underlying flaws in the auction design. Unlike the current CRR auction design, the hedging products in the willing seller approach do not

[2] *Compliance with Order No. 841*, Docket No ER19-468-000, California Independent System Operator Corporation, December 3, 2018, p 27: https://www.caiso.com/documents/dec3-2018-compliance-orderno841-electricstorageparticipation-er19-468.pdf

rely on an estimated transmission model, are consistently defined between the auction and day-ahead market settlements, and are inherently fully funded by a willing counterparty. Shift factor thresholds, derate factors, transmission modeling, revenue adequacy deficit offsets, restrictions on allowable source and sink locations, etc. are all irrelevant factors (and cease to pose any design problem) under a willing seller approach.