# Comments on Congestion Revenue Rights Enhancements Stakeholder Meeting Session #9

**Department of Market Monitoring**
May 6, 2026

## Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Congestion Revenue Rights Enhancements Working Group Session #9*.[1] DMM does not believe that a single uniform reserve price for flow and counterflow congestion revenue rights (CRRs) will address the design flaws inherent in the CRR auction design. 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. To address concerns expressed by the ISO and some stakeholders about this approach, DMM has outlined a potential backstop mechanism that could be implemented with the willing seller auction to provide opportunities for entities to obtain CRRs to hedge energy transactions if they do not receive them in the allocation or auction.

## Comments

### A single uniform reserve price cannot represent the costs of providing many different CRR paths

DMM continues to believe that it is not appropriate for the ISO to sell CRR products that clearly impose costs on transmission ratepayers with a zero dollar offer price. The single reserve price for flow CRRs and single reserve price for counterflow CRRs, as described by the ISO, cannot represent the value or costs of all the various CRRs offered by the ISO, whose values vary significantly. While this may be marginally better than zero dollar offer prices, such a blunt reserve price seems unlikely to be very effective and seems just as susceptible to adverse selection as the current auction.

### Non-firm CRR backstop to willing seller auction

To address concerns that market approaches from the willing seller CRR auction will not provide sufficient liquidity for entities that may actually utilize CRRs as hedges, the ISO could intervene and provide liquidity in a more targeted and limited way than it intervenes today. If the ISO is going to intervene to provide additional liquidity, it should aim to:

- Maintain a market-based mechanism as the core design
- Target and limit ISO intervention to achieve the aim of facilitating hedging of actual energy contracts or generation
- Allow market participants to manage risk without simply transferring the risk to transmission ratepayers
- Limit distortions of the willing seller auction to the extent possible

[1] *Congestion Revenue Rights Enhancements Working Group Session #9*, California ISO, April 22, 2026: https://stakeholdercenter.caiso.com/InitiativeDocuments/Presentation-Congestion-Revenue-Rights-Enhancements-Apr22-2026.pdf

Here we outline a non-firm CRR backstop mechanism that could be implemented by the ISO in conjunction with a willing seller auction. The concept is to provide entities that engage in actual energy market transactions the option to purchase non-firm CRRs if they were unable to buy the desired CRRs in the willing seller auction. The entities would pay a non-firm CRR rate consisting of a fixed rate per megawatt hour (if not already paying transmission or wheeling access rates), and a variable rate depending on the value of the CRR path they would like to purchase or sell.

Entities already paying transmission or wheeling access rates could be eligible to purchase non-firm CRRs. This backstop concept could also be designed to incorporate the release or sales of firm CRRs that entities were unable to sell in the willing seller auction.

The CRRs sold in the backstop mechanism would be non-firm in that excess day-ahead congestion rent after the firm CRRs (from the allocation) are settled could be used to support payouts to non-firm CRRs, but would not necessarily be sufficient to support all payouts. To maintain the value of the non-firm CRRs to provide a financial hedge, the variable rates would be used to pool and manage the risk of making the remaining payouts to non-firm CRRs at day-ahead prices.

The variable backstop rate to buy CRRs would consist of the expected value of the CRR path plus a premium and would not be known to auction participants in advance. The premium included in the variable rate would be set large enough to incentivize efficient participation in the willing seller auction since the backstop mechanism should not provide a "better deal" on any given CRR than purchasing in the willing seller auction if available. If an eligible entity bids into the willing seller auction and does not clear, the entity's bid would then be evaluated in the backstop mechanism. If the bid to buy is greater than the variable rate in the backstop mechanism, the bid will clear and the entity will secure the CRR through the backstop mechanism.

**Outline of non-firm CRR backstop mechanism**

Provided below is a more detailed step-by-step initial draft outline of how a CRR backstop mechanism might be designed to work in conjunction with the willing seller design that has been proposed by DMM.

1. Run CRR allocation, no deficit offsets (could increase transmission available in allocation).
2. Run willing seller market, no deficit offsets.
3. After willing seller market is run, entities can buy non-firm CRRs or release CRRs they already received in the allocation, if:
    a. The buyer is already eligible for allocation, has paid wheeling access charge (WAC) up to the value of the fixed rate, or pays a non-firm fixed rate (fixed rate paid before willing seller auction).
        i. For WAC, if historically paying WAC up to the level the short-term rate over past month; or if haven't paid WAC pay the non-firm fixed rate, then if paying WAC over the period the fixed rate is refunded as WAC payments are made.
    b. The buyer bid for the requested non-firm CRR in the willing seller auction, and did not clear.

c. The non-firm CRR is used for hedging energy

    i. Source and sink between eligible nodes related to hedging market transactions: (e.g., the requestor's generation, trade hub, default load aggregation point, their contract ties).

    ii. Entity has a scheduling coordinator ID code (SCID) for scheduling physical energy.

d. The entity pays the non-firm variable rate for the specific CRR path. The ISO will set the variable non-firm CRR rate as the higher of:

    i. historical prices plus premium (if available),

    ii. a forward-looking price forecast plus premium.

e. The premium should be set to safely manage the risk of funding payments to non-firm CRRs when insufficient surplus rent is available.

f. The source-and-sink and megawatts desired will be made known to auction participants before the willing seller auction runs.

4. Balancing account for non-firm CRRs to be maintained between a lower and upper bound.

    a. Holds non-firm fixed rate payments, non-firm CRR variable rate payments, payouts to non-firm CRRs at day-ahead prices, and interest.

    b. Account seeded from CRR balancing account up to the lower bound.

    c. ISO aims to hold a reserve level in non-firm CRR balancing account between upper and lower bounds.

        i. When reserve falls below the lower bound, pull from CRR balancing account surpluses first, then remainder uplifted to non-firm CRRs holders to get back up to lower bound.

        ii. When reserves go above the upper bound, first pay into the CRR balancing account up to total non-firm fixed rate payments; the next portion is paid out to non-firm CRR holders pro-rata by share of risk premiums paid not to exceed the risk premium payments made by each SCID for non-firm CRRs; account excess beyond this paid into the CRR balancing account to get back down to upper bound.

This outline is a draft starting point for creating a design that addresses the concerns raised about a willing seller design. All these points could be altered and improved, or additional design elements added, based on stakeholder and ISO input.

This non-firm CRR construct could also be modified to work without a willing seller auction to be similar to the proposal for a limited CRR mechanism for entities hedging physical transactions in the ISO's energy markets, as suggested by the Bay Area Municipal Transmission Group (BAMx).