

# Comments on Initial Initiative Ranking of 2017 Policy Initiatives Roadmap

## Department of Market Monitoring

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### Summary

The ISO's initial rankings of discretionary initiatives places the CRR Auction Efficiency initiative proposed by DMM among the top three initiatives, with a ranking score of 28.<sup>1</sup> However, there are a total of six initiatives with rankings of 27 to 31 points, and DMM understands that the ISO believes it will only be able to undertake a very limited number of additional initiatives in 2017. Therefore, DMM provides the following comments on the ISO's initial rankings of the top six ranked initiative in relation to each other in terms of the different criteria that go into the total ranking score.

DMM believes that relative to the six highest ranked initiatives in terms of the different specific criteria, the ISO's ranking significantly understates the relative benefits and overstates the implementation cost and difficulty of the CRR Auction Efficiency initiative as it is was proposed by DMM in terms of intended scope , timeline, etc. As explained below, DMM believes that based on the significant highly quantifiable benefits and reduction in implementation costs of the Auction Efficiency initiative as proposed by DMM relative to the other top-ranked initiatives, this initiative should be scored as 10 for market efficiency/costs and a 10 for implementation costs/resources, so that the revised total score of this initiative should be 34.

### Benefits

#### Market Efficiency/costs

***Based on the market efficiency/cost benefits of the CRR Auction Efficiency initiative as proposed by DMM relative to the other top-ranked initiatives, DMM believes this initiative should be ranked with a score of 10 for market efficiency/costs (Very Significant).***

As shown in DMM's 2015 Annual Report, eliminating the current process of auctioning off additional CRRs after CRRs are allocated to load serving entities has resulted in a loss to transmission ratepayers of \$50 million to over \$200 million per year since 2012, with an average annual loss of \$130 million. Virtually all of these lost revenues are transferred from transmission ratepayers to financial entities that do not own, operate or build generation or transmission in the ISO system or broader EIM footprint. These represent very tangible and quantifiable net benefits to ISO transmission ratepayers

The average annual benefits of \$130 million from this initiative compares to estimated benefits from the entire EIM of \$81 over the last year.<sup>2</sup> However, the total benefits of the CRR initiative

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<sup>1</sup> 2017 Policy Initiatives Roadmap Development, November 3, 2016, Market and Infrastructure Policy, slide.7  
[http://www.caiso.com/Documents/Agenda\\_Presentation\\_Draft2017PolicyInitiativesRoadmap.pdf](http://www.caiso.com/Documents/Agenda_Presentation_Draft2017PolicyInitiativesRoadmap.pdf)

<sup>2</sup> See CAISO's EIM quarterly benefits reports: <http://www.caiso.com/informed/Pages/EIMOverview/Default.aspx>.

is ranked at 14 – just slightly more than the benefit score of 13 ascribed to initiatives such as the Donation of Third Party Transmission for EIM Transfers and the Export Charge initiative.

### ***Benefits from increased integration***

DMM believes the CRR Auction Efficiency initiative as proposed by DMM will ultimately help promote full regional integration by more entities – which in turn provides additional benefits in terms of grid reliability, market efficiency/costs, support by stakeholders. DMM believes that as other entities consider full integration with the CAISO, they are likely to prefer to retain the option of retaining all congestion revenues from transmission that their customers have paid for and continue to pay for through the TAC. Under the existing market design, these entities would be subject to losses from the sale of CRRs in their TAC area. DMM believes that as the current CRR process is better understood by these entities, the current market design may negatively impact their assessment of the benefits for full integration.

***Based on the market efficiency/cost benefits of the CRR Auction Efficiency initiative as proposed by DMM relative to the other top-ranked initiatives, DMM believes this initiative should be ranked with a score of 10 for market efficiency/costs (Very Significant).***

## **Costs**

### **ISO Implementation Costs and Resources**

***The CRR Auction Efficiency initiative as proposed by DMM could be easily implemented and would significantly reduce the overall ongoing implementation costs associated with the CRR auction, monitoring and settlements. Thus, relative to the other six top-ranked initiatives, DMM believes this initiative should be ranked with a score of 10 for implementation costs (i.e. it would significantly reduce implementation costs for the ISO).***

DMM recognizes that this initiative will be strongly opposed by financial entities that have received an average of \$110 million per year from CRRs sold by the ISO over the last four years. Generation companies are also likely to oppose this initiative, since they have been able to purchase CRRs at a profit – rather than paying a premium for CRRs purchased as hedges for bilateral contracts.

However, while this initiative may be controversial, it is not at all complicated to implement. The ISO can easily manage the scope and implementation costs of this initiative so that it would not result in any more implementation costs or resources than the current CRR auction process. Eliminating the current auction of CRRs that are backed financially by LSEs would be very easy to implement and would eliminate the ongoing implementation costs and resources currently needed for the CRR auction and settlement process. If the ISO chose – as a matter of policy – to facilitate a market for financial swap contracts between willing buyers and sellers, this should not require any more implementation costs or resources than the current CRR auction process.