



Memorandum

To: Western Energy Markets Governing Body and ISO Board of Governors

From: James Bushnell, Chair, Market Surveillance Committee

Date: July 8, 2026

Re: **Briefing on Market Surveillance Committee activities: May - June 2026**

This memorandum does not require Western Energy Markets Governing Body or ISO Board of Governors action.

Two new members of the Market Surveillance Committee (MSC) were appointed at the April 2026 board meeting: Dr. Ross Baldick of the University of Texas and Dr. Jacob Mays of Cornell University. Both began their terms on May 1, 2026. This memo covers the MSC's activity and topics of focus during the period from May through June 2026.

The MSC held a public general session meeting on June 11, 2026. The meeting was devoted entirely to the ongoing Congestion Revenue Rights (CRR) Enhancements initiative. The ISO presented its straw proposal for a phased approach to CRR reform, and I presented the MSC's initial thoughts on the proposals under consideration. The MSC also held an executive session with ISO staff on June 12.

Congestion Revenue Rights Enhancements

CRRs are financial instruments that entitle their holders to receive (or pay) the difference in day-ahead congestion charges between a source and sink location on the ISO grid. They serve two primary functions: hedging congestion cost risk for physical market participants, and providing a mechanism for allocating congestion revenues back to transmission customers who fund the grid. The CRR market has long faced two interrelated problems: revenue inadequacy, in which the congestion rents collected in the day-ahead market fall short of the notional value of the CRRs that have been issued, and auction inefficiency, in which CRRs are sold at prices well below their realized value.

Although it is somewhat of a simplification, one can think of the revenue adequacy problem as being analogous to selling or allocating *too much capacity*, while the auction shortfall is a form of selling *at "too low" a price*. Since the 2019 round of policy changes, system-level revenue adequacy has averaged roughly 79%, reflecting a cumulative shortfall of approximately \$856 million.

The ISO's CRR Enhancements initiative has been proceeding through a working group process since late 2025. The ISO published a straw proposal on June 1, 2026, which proposed a two-phase approach. Phase 1 would have included both a minimum bid and price floor in the CRR auction, intended to address auction inefficiency, and enhanced loop flow modeling authority, which would address revenue adequacy. Following significant stakeholder feedback, the ISO published a draft final proposal on June 23 that narrowed the Phase 1 scope to retain only the revenue adequacy measures, deferring the minimum price concept to Phase 2.

The Phase 1 Proposal: Loop Flow Modeling

The MSC supports the current ISO proposal to expand its authority to model loop flow in the annual CRR process. Loop flows—power that flows across the ISO grid from neighboring systems without being explicitly scheduled—consume transmission capacity without contributing to the congestion revenues needed to fund CRR obligations. If the CRR model does not account for these flows, the ISO could sell more CRR capacity than it can cover financially in the daily market, contributing to revenue inadequacy.

The proposed tariff change would extend to the annual CRR process the same language that currently exists for the monthly process, allowing the ISO to consider “adjustments for possible unscheduled flow at the Interties” when determining the quantity of CRRs to release. This is a modest but useful step. The ISO has already begun applying the Global Derate Factor to contingency constraints in the CRR model starting in March 2026, and while one month is too small a sample to draw firm conclusions, the initial results were encouraging. This proposal was broadly supported by stakeholders, and we see no reason not to proceed.

Deferral of the Minimum Price Concept

The MSC also supports the ISO's decision to defer the minimum bid and price floor for further consideration. In earlier discussions, the MSC had suggested that a minimum price could be an efficient means of reducing auction revenue shortfalls *if* the shortfalls were disproportionately concentrated in low-priced CRRs. The intuition was straightforward: if CRRs that cleared at very low prices were responsible for the bulk of the revenue gap, then a price floor could yield a disproportionate reduction in shortfalls while eliminating only a modest amount of hedging value.

Subsequent analysis indicates that this premise does not hold. The ISO's own straw proposal acknowledged that “there is not a consistent pattern of any one price category being more profitable than the others.” My own analysis of roughly 71,000 auction purchases over 2022–2024 was consistent with this: while 38% of all auction megawatts clear at or below \$0.25/MWh, these low-priced CRRs account for only about 23% of total realized payout. A \$1.00/MWh minimum price could potentially eliminate nearly two-thirds of auction volume without a commensurate reduction in revenue shortfalls. In other words, the reductions in revenue shortfalls from a minimum price would likely require eliminating a

roughly proportionate number of CRRs from the auction—not a targeted removal of the most problematic instruments.

Beyond the empirical question, the original straw proposal represented an approach whose main appeal was that it could be implemented quickly, in time for the 2027 annual CRR process. However, there was concern among stakeholders, and the MSC, that the approach could not be adequately tested and analyzed in that timeframe to be confident it would not produce unexpected negative outcomes. In particular, it remains unclear how minimum prices would interact with the demand curves for specific CRRs—whether bids would simply shift upward or whether many paths would see participation drop off entirely, potentially reducing liquidity and, counterintuitively, auction revenues.

We also noted that the straw proposal would have applied the minimum price to both capacity directly sold by the ISO in the auction and capacity offered for resale by load-serving entities (LSEs) that originally acquired those rights through the allocation process. Several stakeholders expressed concern that this could restrict the ability of LSEs to reconfigure or sell their allocated rights, effectively reducing the value of the auction as a means of offloading rights that may not match their hedging needs. If the minimum price drove most LSE resale activity into bilateral secondary markets, the result could be less price transparency, more difficult reconfiguration, and reduced access for smaller LSEs.

Broader CRR Reform Considerations

Several parties, most notably the Department of Market Monitoring (DMM), have advocated for a more fundamental restructuring of the CRR auction along the lines of a “willing seller” (WS) framework. Under such an approach, the ISO would no longer sell additional transmission capacity beyond what is allocated to LSEs; only LSEs wishing to sell their allocated rights, and willing buyers, would transact. While the willing seller willing buyer (WSWB) concept may be more technically straightforward to implement than a minimum price, the previous MSC has noted that it would also restrict both the quantity and nature of transmission rights available in the market. The auction currently serves as a venue not only for price discovery but also for making transmission hedging available to participants who are not eligible for allocations or whose allocations do not match their actual congestion exposure. While transmission ratepayers have been enduring ex-post losses to support these functions, there is still value to them.

More broadly, any proposal that reduces the amount of CRR capacity available through the auction—whether through a minimum price, a WSWB framework, or other means—necessarily increases the relative importance of the allocation process, through which the majority of CRRs are already distributed. The MSC believes the allocation process deserves further scrutiny, particularly as these reform proposals take shape. The allocation mechanism raises its own efficiency and equity concerns: some LSEs may gain far more value from their allocations than others, and limited sink options can lead to herding on high-value paths. If the auction is going to play a smaller role in the CRR market going

forward, it becomes all the more critical to ensure that the allocation process is working well.

Finally, the MSC continues to view revenue inadequacy as a serious problem that spills over into every other aspect of the CRR system. Revenue adequacy has averaged only about 79% since 2019, even with haircuts on individual CRR payouts ranging from 14% to over 72%. The ISOs approach to stemming revenue inadequacy losses may be seriously degrading the quality of the CRRs. At some point, the degradation of CRR quality undermines the rationale for having CRRs at all. The MSC believes there is value in exploring whether the system could provide a smaller quantity of higher-quality CRRs rather than continuing to issue rights that are then clawed back through increasingly aggressive shortfall allocations. Addressing the root causes of revenue inadequacy - discrepancies in the shift factor threshold between the CRR and day-ahead markets, other model divergence, and loop flow—should remain a high priority for the initiative as it moves into Phase 2.