SVP Comments on CAISO CRR Auction Efficiency **Submitted to initiativecomments@caiso.com**

Track 1B Straw Proposal

Submitted by	**Company**	**Date Submitted**
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In response to the CAISO's request for feedback, Silicon Valley Power (SVP) submits the following comments on the California Independent System Operator Corporation's (CAISO) Congestion Revenue Rights (CRR) Auction Efficiency Track 1B Straw Proposal, dated April 19, 2018 (Track 1B Straw Proposal).

There are three elements to CAISO's Track 1B Straw Proposal on which SVP submits comments: (1) the CAISO's proposed mechanism to allocate shortfalls - caused by unavailable transmission - should prioritize allocation CRRs over auction CRRs; (2) the Track 1B proposal needs to be fully explored and analyzed, and (3) the CAISO's assertions regarding the "willing-buyer, willing-seller" ("WB-WS") alternative incorrectly assume those mechanisms will create open access and/or CFTC regulatory problems.

CAISO's Track 1B Straw Proposal Needs to Provide Priority to Allocated CRRs.

In the Track 1B Straw Proposal, the CAISO proposes a mechanism to examine revenue sufficiency on a constraint by constraint basis, with goals of preventing CAISO from paying out more to CRR holders than it collects in Day-Ahead Market congestion revenue, and equitably allocating any shortfalls.[1] After the Day-Ahead market clears, CAISO would calculate the shortfall by constraint, and reduce payments to CRRs that were on constraints with shortfalls. CAISO's presentation indicates this mechanism will ensure that the CRRs contributing to shortfalls on constraints share in those shortfalls.[2]

SVP submits that equitably allocating the shortfalls requires a modification to the Track 1B Straw Proposal. That is, an equitable approach for allocating the revenue insufficiency should consider the costs for participating in the allocation and auction processes, as well as the contribution of the CRR to the insufficiency. For example, CAISO could apply the shortfall first to the lowest value auction CRRs, then to the highest value auction CRRs, then to allocation CRRs, similar to the approach included in the

[1] CAISO presentation, entitled, "Congestion revenue rights auction efficiency: Track 1B straw proposal stakeholder meeting," April 23, 2018, slides #5-6.
[2] CAISO presentation, entitled, "Congestion revenue rights auction efficiency: Track 1B straw proposal stakeholder meeting," April 23, 2018, slides #7-10.

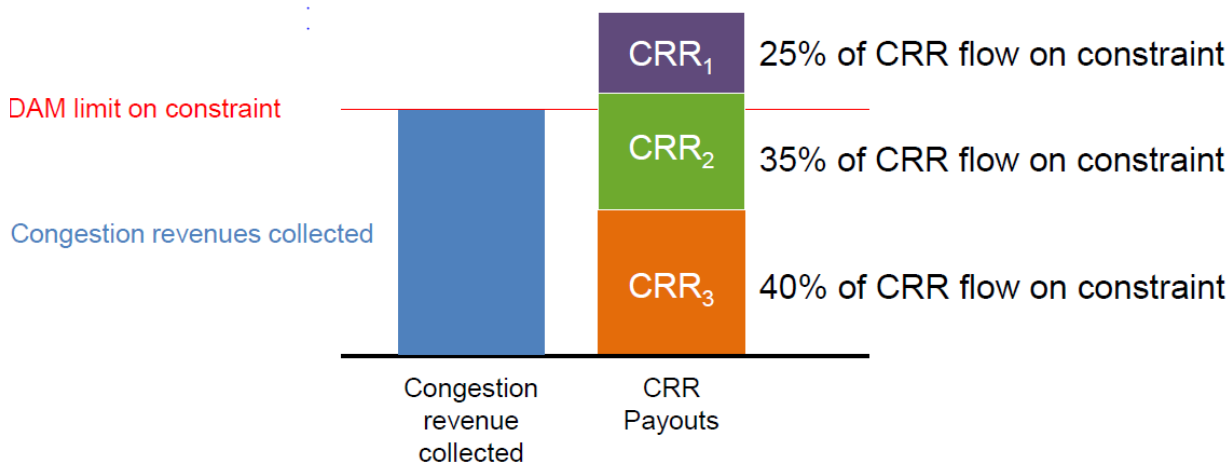
ex ante de-rate discussion the CAISO had with the Market Surveillance Committee on April 5, 2018.[3] This approach would prioritize the allocation of the shortfall to those who contributed the least in recovering the cost of the underlying transmission system that supports the CRR auction. CRR allocations, which are awarded before any auction CRRs exist, should only receive an allocation of the shortfall if the volume of transmission available in the Day-Ahead Market is less than the total allocated CRRs on the constrained path. In other words, if the Day-Ahead Market constraint limit is greater than the allocated CRRs on the constraint, then the shortfall is not due to allocated CRRs and no revenue deficiency should be recovered from the allocated CRRs.

In summary, SVP asserts that the Track 1B Straw Proposal should be modified such that the revenue insufficiency is first corrected from auction CRRs on the constrained path. Prioritizing the CRRs in that manner is appropriate because the CAISO first allocates CRRs to the Load Serving Entities (LSEs) who fund the transmission grid through payment of Access Charges. Those entities are entitled, under the Federal Power Act, to access to CRRs to hedge their delivery obligations of energy to load. The allocation process provides an opportunity for LSEs to seek to hedge their load service.

After the allocation process is completed there is typically transmission capability available for sale in the auction. The revenue shortfall that would be addressed under CAISO's Track 1B Straw Proposal results from less transmission being available in the Day-Ahead Market than was assumed in the CRR model. The constraints on transmission capacity that result in revenue insufficiency are more likely the result of the Auction CRRs, as those CRRs are auctioned after the allocation. That is, but for the auction, there would be no insufficiency, or any such insufficiency would be greatly reduced. As the allocated CRRs do not represent all of the transfer capability on a path, changes to the capability would rarely result in insufficient capacity to cover the allocation CRRs. Even if so, then the insufficiency will not be resolved by auction CRR revenues, and CAISO can then reduce revenues to the allocation CRRs. SVP expects this circumstance will be the exception rather than the rule.

Using the example from page 8 of CAISO's April 23, 2018 presentation (see the illustration below) – if CRR3 is from the allocation and CRR1 and CRR2 are auction CRRs, then the shortfall would be shared only by the auction CRRs. If CRR3 and CRR2 are from the allocation, and CRR1 is from the auction, then CRR1 would have reduced (or no) revenues and CRR2 and CRR3 would likewise have reduced revenues with respect to the proportion of their volume that exceeds the Day-Ahead Market limit.

[3] Market Surveillance Committee Meeting, Congestion Revenue Rights Auction Efficiency Discussion presentation, Perry Servedio, Slide 7. http://www.caiso.com/Documents/Presentation-CongestionRevenueRightsAuctionEfficiency-Apr5_2018.pdf



Although no CAISO preference is stated in the Track 1B Straw Proposal, on page 10 of its April 23, 2018 presentation, CAISO invites comments on how surplus revenues should be allocated. SVP suggests they should be allocated to all CRR holders, without regard to the particular constraint, because the surplus reflects transmission capacity that exceeds the total of all CRRs – allocation and auction combined – on the constraint. As such the surplus should be allocated to all CRRs without regard the constraint, which is effectively what SVP understands happens with the CRR balancing account today.

Impact Analysis of Track 1B Straw Proposal. It is important that the impacts be studied and that the process that will be applied is feasible and tested. CAISO has indicated a desire to implement Track 1B in time for the 2019 CRR process. SVP is concerned that it will be difficult to obtain sufficient testing of the impact and functionality of the proposed Track 1B mechanism on the timeline proposed by CAISO. If the CAISO decides to move forward with the Track 1B Straw Proposal, it should provide analysis of the impacts of the proposal so classes of entities (large LSEs, small LSEs, financial entities) can evaluate, prepare and respond to the analysis. If CAISO is unable to provide impact analysis on the Track 1B Straw Proposal, implementing it may have unintended consequences on the usefulness of the CRR mechanism. Further, SVP is concerned that the Track 1B Straw Proposal is not making the CRR auction more competitive, as it is primarily dealing with un-modeled outages. It is not directly addressing auction efficiency.

Alternatives. As a supporter of the WB-WS proposal, SVP is concerned that the CAISO's Track 1B Straw Proposal could be read as prematurely, and permanently, dismissing that alternative. The WB-WS proposal is supported by a majority of LSEs on the CAISO system, and should be given full examination and consideration. Based on CAISO's representations before its Board and in its April 11, 2018 Track 1A

FERC filing in Docket No. ER18-1344, SVP expects that the WB-WS proposal will be vetted further, either as part of the Track 1B or Track 2 process.

The reasons for exploring the WB-WS proposal have been laid out in detail in prior comments, and SVP will not repeat such comments here. Instead, SVP will respond to CAISO's arguments that the WB-WS proposal undermines open access and could undermine CAISO's existing exemption from U.S. Commodities Futures Trading Commission ("CFTC") regulation.

SVP believes that the CAISO's assertion that the WB-WS proposal undermines open access is unfounded. CRRs are not necessary for open access. CRRs are not firm transmission rights, necessary to schedule energy under traditional open access tariff structures. Rather CRRs are financial instruments for hedging financial exposure to, or speculate on, uncertain price differentials between two locations. Under CAISO's market model, open access is available to all market participants by buying and selling energy at the corresponding locational marginal prices.

Further, the cited PJM order in the Track 1B Straw Proposal is not applicable here, as the circumstances and market structures are significantly different. As such, the comment by FERC in the PJM order is not a reason to abandon the WB-WS alternative.

The Track 1B Straw Proposal also relates concerns that the WB-WS proposal could cause CAISO to lose its existing CFTC exemption. The WB-WS proposal appears to be fully consistent with the current exemption from CFTC swap regulation, which applies to Financial Transmission Rights (FTR) markets "where each FTR is linked to, and the aggregate volume of FTRs for any period of time is limited by, the physical capability (after accounting for counterflow) of the electric energy transmission system operated by the" RTO/ISO.[4] Both of these criteria would continue to be met under the WB-WS proposal, since the CRRs would continue to be linked to, and limited by, the physical capability of the transmission system, taking into consideration counterflow and shift factors modeled in the CRR Full Network Model. Even if there is a risk that the CFTC may revisit the exemption, SVP understands that is the case with any change in the CAISO CRR mechanism. A requirement of regulatory approval for a change is not a sufficient reason to continue a paradigm which has resulted in unjust costs being imposed on consumers.

[4] Final Order, 78 Fed. Reg. 63 (April 2, 2013)