



ORA

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THE OFFICE OF RATEPAYER ADVOCATES' COMMENTS ON THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR'S (CAISO) NOVEMBER 21, 2017, CRR [CONGESTION REVENUE RIGHTS] AUCTION ANALYSIS REPORT

December 6, 2017

The Office of Ratepayer Advocates (ORA) is the independent consumer advocate within the California Public Utilities Commission (CPUC), with a mandate to obtain the lowest possible rates for utility services consistent with reliable and safe service levels, and the state's environmental goals. The following are ORA's comments and recommendations on the CAISO's November 21, 2017, CRR Auction Analysis Report (CRR Report).¹

BACKGROUND

CRRs are financial rights to collect or pay for the difference in congestion costs between sources and sinks² on the transmission network.³ CRRs are used to hedge possible congestion charges in the Day-Ahead Market (DAM), to mitigate price volatility, and to offset the transmission costs of the ratepayers in the CAISO's balancing area who pay for the transmission system through the transmission access charge (TAC).⁴ Some CRRs are distributed to load-serving entities, while the remaining CRRs are distributed via an auction process.

The CAISO opened a stakeholder process in early 2017 to address a concern with the efficiency of the CRR auction, which historically has resulted in "large CRR payments made to holders of auction CRRs in comparison to the auction revenues collected when releasing the CRRs through the auctions."⁵ The CAISO held a workshop to discuss CRR auction issues on April 18, 2017. Stakeholders submitted comments to the CAISO following the workshop, and the CAISO

¹ *CRR Auction Analysis Report*, CAISO, November 21, 2017 (CRR Report). Available at <http://www.caiso.com/Documents/CRR Auction Analysis Report.pdf>

² The source is the point at which energy is injected, while the sink is the point at which energy is removed. *Overview of Congestion Revenue Rights in the New California Energy Market*, March 21, 2006, Scott A. Jercich, CAISO (Jercich Presentation), slide 9.

³ Congestion occurs when load cannot be served by the lowest cost energy due to transmission constraints, and results in the use of higher cost energy to serve load. Jercich Presentation, slide 5.

⁴ *Shortcomings in the Congestion Revenue Right Auction Design*, CAISO Department of Market Monitoring (DMM), November 28, 2016, p. 2.

⁵ CRR Report, p. 20.

committed to analyzing issues related to the efficiency of the CRR auction and publishing the results.

CRR REPORT

The CAISO published the results of its analysis of the CRR auction in the CRR Report. The CRR Report contains extensive data and analysis, including historical CRR auctions, market performance, and modelling of transmission outages. It includes detailed analysis of auctions for a representative set of months. The CRR Report does not include an assessment of the role of 50% CRR auction set-aside amounts on Scheduling Points which denies the CRR awards in the later allocation tiers. Neither does the CRR Report provide a summary of the CRR auction policies from other Regional Transmission Operators (RTO), which ORA had requested.⁶ The CRR Report provides no evidence of benefits, such as increased market liquidity, which could result in lower energy prices for ratepayers.

ORA RECOMMENDATIONS

Transmission ratepayers have received just \$0.52 in CRR auction revenues per \$1 paid to CRRs purchased in the auction from 2009 to October 2017, with total net losses of \$680 million during that period.⁷ The analysis included in the CRR Report highlights the not insignificant number of CRR awards at zero offer prices that arise because transmission ratepayers are effectively forced to sell the CRRs without any opportunity to put a floor on the price.⁸

The CAISO report observes that, counter to the claim that the CRR auction provides liquidity benefits to the energy trading market,⁹ the auction participants are instead selectively obtaining CRRs to extract value. Otherwise, there would be more CRRs between individual generator pricing nodes and the Trading Hub or default load aggregation point (DLAP), or between Intertie points and the Trading Hub or DLAP. Instead, the CRRs are primarily between generation point

⁶ *The Office of Ratepayer Advocates' Comments on the California Independent System Operator Corporation's (CAISO) Congestion Revenue Rights (CRR) Analysis Working Group Meeting on April 18, 2017*, May 2, 2017, p. 3.

⁷ *Problems in the Performance and Design of the Congestion Revenue Right Auction*, November 27, 2017 (2017 DMM CRR Report), DMM, pp. 1, 11-12. DMM calculated losses from CRR and Location Marginal Price (LMP) data. DMM regularly reports on ratepayer auction losses. For example see: *Department of Market Monitoring, Q2 2017 Report on Market Issues and Performance*, September 25, 2017: <http://www.caiso.com/Documents/2017SecondQuarterReport-MarketIssuesandPerformance-September2017.pdf>.

⁸ CRR Report, p. 10. "There is a set of CRRs in every auction that clear at \$0 prices. Usually these CRRs have sources and sinks located close one to another, electrically speaking. These represent CRRs that are acquired by CRR holders at zero cost."

⁹ *CRR Market Design in Nodal Markets*, Abram W. Klein, Appian Way Energy Partners Presentation, April 18, 2017, slide 4; *CRR Study Working Group*, Ellen Wolfe, Western Power Trading Forum Presentation, April 18, 2017, slides 18, 20, and 21; *MSC – Gaining a Complete Picture*, Kolby Kettler, Vitol Presentation, April 18, 2017, slides 4, 5, and 7.

to generation point, and from intertie point to intertie point as observed by the CAISO.¹⁰ Furthermore, there appears to be limited competition for many of the CRR source-sink pairs in both the annual and monthly auctions, with about 45 percent of the overall CRR award volume being for CRRs source-to-sink definitions that had one single award.¹¹ The CRR Report acknowledges that the observed trading patterns “open[] the question on how much liquidity or hedging the auctions may be generally providing...”¹²

The extensive analysis included in the CRR Report shows that auction revenues collected from CRRs released in the CRR auctions continue to be significantly lower than the money paid to holders of auction CRRs.¹³ The CRR Report confirms DMM’s finding that retaining the existing CRR auction design continues to result in significant costs to ratepayers,¹⁴ while yielding no demonstrable benefits.

ORA recommends that after the December 19, 2017 workshop and subsequent stakeholder comments, the CAISO move expeditiously into the policy phase of this proceeding to consider revisions to the current CRR auction process that will provide value to TAC ratepayers.

If you have any questions or comments, please contact Kanya Dorland at Kanya.Dorland@cpuc.ca.gov or (415) 703-1374

¹⁰ “The vast majority of CRR payments are for auction CRR definitions between individual supply points, mostly from generation point to generation point and from intertie point to intertie point. A large volume of CRRs released in the auction are for CRR definitions with very few awards. Indeed, about half of the CRR volume released in the auctions is based on CRR definitions with one single award.” CRR Report, p. 10.

¹¹ CRR Report, p. 27.

¹² CRR Report, p. 10.

¹³ “In 2014, the money paid to auction CRRs was as high as five times the auction revenues collected on these CRRs. In 2017, that ratio oscillated between 1.5 to 2.2 times.” CRR Report, p. 7.

¹⁴ DMM indicates a net loss of \$680 million to ratepayers from 2009 through October 31, 2017. 2017 DMM CRR Report, pp. 1, 11-12. The CRR Report shows the net CRR payments during January 2014 through May 2017 to be ~\$319 million. CRR Report, p. 49.