



Department of Energy

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California ISO Stakeholder Working Group System-level Market Power, July 15, 2019 Bonneville Power Administration Comments

Submitted by	Company	Date Submitted
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The Bonneville Power Administration (Bonneville) appreciates the reviews of system-level market power for the CAISO market and the opportunity to comment on the materials put forward during the July 15th workshop. Bonneville is a federal power marketing administration (PMA) within the U.S. Department of Energy that markets electric power from 31 federal hydroelectric projects and some non-federal projects in the Pacific Northwest with a nameplate capacity of 22,500 MW. Bonneville currently supplies 30 percent of the power consumed in the Northwest. Bonneville also operates 15,000 miles of high voltage transmission that interconnects most of the other transmission systems in the Northwest with Canada and California. Bonneville is obligated by statute to serve Northwest municipalities, public utility districts, cooperatives and then other regional entities prior to selling power out of the region.

Bonneville appreciates the need to routinely conduct system-level assessments of structural competitiveness of the markets in the CAISO Balancing Authority Area (ISO BA). Bonneville agrees with CAISO staff that there are a number of possible, favorable steps that could be taken to help improve the structural competitiveness of the markets for the ISO BA before concluding that the market is potentially uncompetitive enough to warrant exploration of a possible dynamic test for system-level competitiveness and what mitigation strategies might ensue. Bonneville is swayed by the metrics put forth by CAISO staff in the July 15th workshop:

- Slide 6 – “Failures generally occur during net peak hours when supply is extremely tight”;

- Slide 8 – “Structural uncompetitive conditions occur when supply reserves are lowest. Marginal improvements in reserve margins would likely improve structural conditions.”;
- Slide 9 – “Market prices correlate with high natural gas prices”; and,
- Slide 10 – “Import suppliers rarely set high prices and do not set prices at the bid cap”.¹

In addition, one key metric that can indicate potentially uncompetitive conditions – Slide 11 – “Increased hourly price-cost markups from 2017 to 2018” – we understand to be based on replacing bids of internal natural gas-fired generation with their default energy bids.² Bonneville sees these observations as an indication of a tight supply and demand conditions that we have also observed in our comments in other CAISO policy initiatives.³

Given these observations, Bonneville agrees with CAISO staff that a number of positive steps could be taken to achieve more competitive outcomes: increased forward contracting for energy supply (whether the price is fixed or floating is a contracting decision between the buyer and the seller); enhanced Resource Adequacy provisions that are being considered in the ongoing policy initiative for RA Enhancements; and, improved market structure and pricing mechanisms such as the Integrated proposal currently being contemplated in the ongoing policy initiative for Day-Ahead Market Enhancements. The outcomes from each of these measures should contribute to favorable, durable, long-lasting enhancements to structural competitiveness for the ISO BA. Therefore, Bonneville believes that the CAISO staff should be focused on achieving those outcomes while continuing to monitor the structural competitiveness of the ISO BA.

¹ System-level market power, CAISO Market Design Policy, July 15, 2019, slides 6, 8, 9 and 10.

² System-level market power, CAISO Market Design Policy, July 15, 2019, slide 11.

³ Comment in Day-Ahead Market Enhancements policy initiative proposed market design options, Bonneville Power Administration, July 11, 2019. Comment on Resource Adequacy Enhancements policy initiative Revised Straw Proposal, Bonneville Power Administration, July 24, 2019.