



Stakeholder Comments Template

System Market Power Mitigation – Working Group

This template has been created for submission of stakeholder comments on the System-Level Market Power Mitigation – Working Group that was held on September 20, 2019. The workshop, stakeholder meeting presentations, and other information related to this initiative may be found on the initiative webpage at:

<http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=8DD12CEA-E8B7-4075-A069-1AD1702E4802>

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **October 9, 2019**.

Submitted by	Organization	Date Submitted
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Please provide your organization’s comments on the following issues and questions.

1. Proposal to apply system-level market power mitigation to the CAISO balancing area

Please provide your organization’s feedback on *the proposal to apply system-level market power mitigation to the CAISO balancing area*. Please explain your rationale and include examples if applicable.

Bonneville supports the principles underlying competitive markets, and with it, appropriate procedures to temper the impacts of market power when it is exercised. Bonneville also appreciates the CAISO’s supporting analysis on the potential for system-level market power and the expansive discussion during this stakeholder process. Both the analysis and discussion provided insights into the constraints, operational conditions, and market participant behaviors at issue for the CAISO market. Ultimately, Bonneville did not find the analysis conclusive on the issue of persistent and predictable market power. The keystone of the competitive market is the incentive for supply (demand) to bid its true marginal cost (willingness to pay). From a supply perspective, this incentive is lost when a market participant has reasonable confidence in being the marginal offer.

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Bonneville is not convinced that uncompetitive conditions *at a system-level* are predictable enough to make profitable a strategy to bid above marginal cost.

The analysis and discussion also highlighted the important distinction between tightening market conditions and exercise of market power. There is clearly more nuanced discussion needed on this issue, but Bonneville notes that differentiating the two issues is essential to preventing perverse market outcomes. To unnecessarily mitigate resources during genuinely tight conditions, will disincent resources from participating in the CAISO market, exacerbating the market conditions inside the CAISO that produce the price outcomes that several stakeholders identified. Therefore the CAISO can and should conduct further analysis before implementing a system market power test that could have potentially unintended consequences.

Bonneville also notes that there are currently more developed CAISO stakeholder initiatives that may ameliorate tight market conditions or perceived lack of market supply, namely the CAISO initiatives on Resource Adequacy (RA) and Day-Ahead Market Enhancements (DAME). The structure of the RA market, especially under the proposed RA Enhancements, is likely to address some of the long-term supply issues. In conjunction with the DAME's proposed day-ahead procurement of economic supply for the fifteen-minute market, these initiatives should help resolve market tightness on both a forward basis and on a more granular level.

2. Proposal to only apply system-level market power mitigation to the real-time market

Please provide your organization's feedback on *the proposal to only apply system-level market power mitigation to the real-time market*. Please explain your rationale and include examples if applicable.

Bonneville recommends that the CAISO pursue both RA and DAM Enhancements before addressing any potential issues pertaining to system market power mitigation. However, if the CAISO plans to implement a system-level market power mitigation test, Bonneville would recommend the mitigation be limited to the real-time (RT) market. Based on the supply available to the DA versus RT markets, there is a higher likelihood that market power could be exerted in the RT. This is due to the fact that many resources that could potentially place competitive bids and lower the market-clearing price are likely to have been awarded in the DAM or are already committed to serving other load. As a result, the available supply is limited in the RT market, making it more theoretically susceptible to the exertion of market power than the DAM. Therefore, if the CAISO is to move forward with this process, Bonneville would support applying this process only to the RT market, for the above reason.

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3. Proposal to consider interactions with the energy imbalance market

Please provide your organization's feedback on *the proposal to consider interactions with the energy imbalance market*. Please explain your rationale and include examples if applicable.

Outside of the local market power test applied to energy imbalance market, it is not clear to Bonneville that the CAISO currently has sufficient information to accurately assess and consider the issue of system market power as it relates to the overall EIM footprint. Given the significant lift required to acquire this information and the fact that we are not thoroughly convinced this issue exists, we recommend continued analysis before moving forward on system wide market power mitigation within the EIM footprint. Because of the broad scope and the potential complications of evaluating and potentially mitigating external BAs, we propose that this issue be addressed by the larger EIM governing body. This will ensure that all impacted parties are given sufficient time to review and comment.

4. Competitiveness evaluations and economic import offers

Please provide your organization's feedback on the topic of *competitiveness evaluations and economic import offers*. Please explain your rationale and include examples if applicable.

Bonneville supports continued economic analysis and evaluation on this subject. We would encourage further attempts to differentiate conditions of genuine market tightness from situations of perceived exertion or potential to exert market power. We would also support the continued exploration of predictable and consistent patterns within the data—as these are the situations in which a supplier would be most able to exert market power.

5. Potential measures the CAISO could take and likely market effects

Please provide your organization's feedback on *the potential measures the CAISO could take and likely market effects*. Please explain your rationale and include examples if applicable.

Bonneville supports, in principle, limiting the extent of mitigation to internal resources. Bonneville understands the theoretical justification for potential mitigation of import RA offers, but believes more expansive mitigation is 1) beyond

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CAISO's jurisdiction; 2) overly burdensome from an implementation perspective; 3) ultimately incompatible with CAISO's goal of incentivizing robust levels of market participation.

As previously stated above, Bonneville believes that the current analysis does not support the need for a system market power mitigation test at this time. We recommend continued analysis to monitor prices for predictable patterns in which a supplier could exert market power.

Bonneville continues to support the initiatives the CAISO is addressing through the RA and the DAM Enhancements. We believe that such initiatives should greatly assist in addressing the tightness that the CAISO is observing in the market today and will see in the future.

We would also like to reiterate our appreciation of the analysis that the CAISO conducts and makes available to stakeholders. This information, such as the RSI studies and the price performance analysis provide greater clarity into market operations and allow for more informed stakeholder engagement.

6. Additional comments

Please offer any other feedback your organization would like to provide on the topics discussed during the workshop.

Bonneville would like to reiterate and support the language articulated in the 'Other Considerations' section of the Conceptual Design Proposal. We want to support the CAISO's position that if they are to implement some form of system market power mitigation, they would only do so in the case when its import constraints are binding. To do otherwise would ignore the fact that the CAISO has access to a number of other resources in a competitive west-wide market.

We also feel it is essential to reinforce the CAISO's position under 'Potential measures the CAISO could take and likely market effects'. Bonneville agrees that it would be wholly outside of the CAISO's jurisdiction to attempt to assess, regulate and/or mitigate markets external to theirs. It is certainly within the CAISO's authority to do so within their own BAA, but the competitiveness of WECC is clearly under the purview of FERC.

Additionally, the CAISO appropriately concludes that even in scenarios in which they assume the western interconnection is uncompetitive, attempts to mitigate would result in perverse incentives that would harm the CAISO BA. In the case where mitigation is limited to internal supply and external regions are assumed to be uncompetitive—we concur that "prices will continue to converge to the presumed uncompetitive wider western market price"¹. In the case where mitigation may apply to both internal and import supply, the CAISO again comes to the correct conclusion: the incentive is created to where an importer would

¹ System-Level Market Power Mitigation – Conceptual Design Proposal, CAISO, September 19, 2019, page 22.

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withhold supply from the market or offer in an alternative external market rather than risk mitigation. The end result being “an overall lack of supply and likely higher CAISO clearing prices.”²

In conclusion, Bonneville believes that the CAISO should continue to conduct analysis, but should prioritize RA and DAM Enhancements before implementing a system market power mitigation process. Such initiatives will help address tight CAISO supply and should contribute to favorable, durable, long-lasting enhancements to structural competitiveness for the CAISO BA. If the CAISO does determine to implement a system market power test, it should only apply to resources within the CAISO footprint and should only be implemented when the constraints are truly binding. It's within the CAISO authority to assess the competitiveness within their BA, but should not extend these efforts to markets outside their jurisdiction.

Bonneville appreciates the opportunity to comment on this analysis.

² System-Level Market Power Mitigation – Conceptual Design Proposal, CAISO, September 19, 2019, page 22.