

Local Market Power Mitigation Enhancements Issue Paper/Straw Proposal

Comments by Department of Market Monitoring
October 17, 2018

DMM appreciates the opportunity to supplement our prior comments on *the ISO's Local Market Power Mitigation Enhancements Issue Paper/Straw Proposal* following the working group meeting held on October 10, 2018.¹

FERC Order 831 Compliance

DMM's presentation at the July 19, 2018 Energy Imbalance Market Offer Rules Technical Workshop included a recommendation that CAISO make a filing with FERC pursuant to FERC Order 831 to ensure that import bids up to \$2,000/MWh must be cost justified in order to set LMPs.² As noted at the workshop, DMM believes that allowing import bids on CAISO interties up to \$2,000/MWh without cost-verification could undermine the incentive to offer supply in EIM and bilateral markets. DMM also believes that subjecting import bids over \$1,000/MWh to cost justification is an important step to maintain the current level of system market power mitigation in the CAISO markets.

The ISO's Local Market Power Mitigation Enhancements Issue Paper/Straw Proposal issued on September 13, 2018 describes a new process for *ex ante* cost verification of bids for resources within the CAISO and EIM resources. However, the straw proposal does not suggest that this process would be applied to imports.

Draft tariff language posted by the CAISO in June for its compliance filing on FERC Order 831 would not have subjected import bids over \$1,000/MWh to cost justification. In that stakeholder process, DMM also recommended that the ISO include import bids in the cost review process and only allow import bids to set prices above \$1,000/MWh if the costs underlying those bids have been verified.³

DMM understands that in response to DMM's recommendation, the CAISO deferred its compliance filing on Order 831 and indicated that DMM's recommendation would be considered as part of stakeholder process beginning in Q4 2018. However, if the CAISO does not have plans for a separate stakeholder process on this issue, DMM suggests that the issue of

¹ *Local Market Power Mitigation Enhancements Issue Paper/Straw Proposal Comments by Department of Market Monitoring*, October 4, 2018, <http://www.caiso.com/Documents/DMMComments-LocalMarketPowerMitigationEnhancements-IssuePaper-StrawProposal.pdf>

² *Market Power Mitigation Issues*, Energy Imbalance Market Offer Rules Technical Workshop, Department of Market Monitoring, July 19, 2018, slide 2. <http://www.caiso.com/Documents/DMMPresentation-EnergyImbalanceMarketOfferRulesTechnicalWorkshop-Jul19-2018.pdf>

³ *Comments on FERC Order 831 Compliance Filing Department of Market Monitoring*, June 27, 2018. <http://www.caiso.com/Documents/DMMComments-FERCOrderNo831ComplianceFiling-DraftTariffLanguage.pdf>

cost verification of import bids pursuant to Order 831 be incorporated into the CAISO's current stakeholder process on local market power mitigation enhancements.

Updating real time bid caps

As indicated in DMM's October 4 comments, DMM supports establishing the process of software capability to allow bid caps used in the real-time market to be adjusted using reasonableness thresholds that reflect same-day gas trading information on ICE and any cost documentation submitted suppliers. This appears to address DMM's prior recommendations on this issue.

Given the expanded scope and complexity of market power mitigation enhancements that continue to be considered by the CAISO in this initiative and the CCDEBE proposal already approved by the Board, DMM is concerned about the ability to implement all of these changes by fall 2019. Consequently, DMM continues to recommend that the CAISO adopt a phased approach under which the CAISO places priority on first implementing higher priority changes – including the ability to adjust bid caps in the real-time market based on conditions in the same day gas market.

Implementation of more complicated modifications to the market power mitigation software (such as dynamic mitigation) could be part of a separate second phase in order avoid further delay in addressing the key issue of gas prices used to calculate bid caps for the real-time market. With this approach, if the CAISO cannot complete all phases by fall 2019, the most critical changes (including updating of bid caps used in the real-time market) could have a greater chance of being implemented in fall 2019.