Farrokh:

The “feasibility index” method proposed by CAISO and discussed by the Competitive Path Assessment Work Group seems the most promising approach available. The CEOB offers some suggestions on two of the elements of the straw proposal contained in your revised Minutes of the July 13-14 meeting.

7. CAISO should be able to incorporate contracts involving control over a generation unit. Other bilateral contracts can be considered in later phases.

The pivotal supplier tests are designed to evaluate the supply of generation controlled by a subset of generating firms (or bid by a set of SCs) relative to the supply in a local market. The analysis is more complicated if an owner or SC has contractual arrangements with a second party. As several stakeholders have pointed out, some of these bilateral contracts would be impossible to track down. However, two types of contracts are reported to FERC when generators file applications or triennial renewals for market based rate authority (MBRA). These contracts include those which involve (1) multiple owners of generation units, and (2) granting a second firm operational control of a unit. CAISO routinely reviews these MBRA applications and should be in a position to incorporate the data into pivotal supplier analyses.

CAISO is proposing to run the pivotal supplier tests on an infrequent basis. The only contracts which should be included are those whose term lasts the whole interval between tests. The contracts reported in the MBRA applications are longer term, and significant changes result in the refiling of MBRA applications which would also be available to CAISO for review.

9. CAISO should use generation owners as the initial basis for the pivotal supplier tests.

While an SC may have several generation owners as clients, it is expected to optimize returns for each client. The total capacity bid by the SC on behalf of multiple owners would overstate its ability to act as strategically. The use of several SC by a single owner would likewise understate the ability of the owner to affect the market. The information on contractual control of complete or partial units (discussed in Element 8 above) should allow CAISO to sort out exactly which capacity is controlled by different owners, removing one of the reasons to use SC as the basis of the pivotal supplier tests. Finally, FERC’s market power screens are calculated using ownership as the basis and FERC may insist on consistency with their approach.

We appreciate your continuing efforts with the Working Group and look forward to the next meeting.

Ray Olsson
California Electricity Oversight Board