

Middle River Power, LLC Comments on  
*System-Level Market Power Mitigation Conceptual Design Proposal*

Submitted by	Company	Date Submitted
Brian Theaker	Middle River Power, LLC ("MRP")	October 9, 2019

MRP thanks the CAISO for the opportunity to submit these comments on the CAISO's September 19, 2019 *System-Level Market Power Mitigation Conceptual Design Proposal* ("Conceptual Design Proposal", or "CDP")), as discussed at the September 20, 2019 meeting.

As described in the CDP, the CAISO's conceptual approach to system-level market power mitigation is:

1. Determine whether the CAISO's Balancing Authority Area ("BAA") is import-constrained.
2. If the CAISO's BAA is import-constrained, test to see whether the internal supply is structurally competitive. Per the CAISO, "internal supply" would also include supply and demand within an Energy Imbalance Market BAA that is price converged with the CAISO BAA.
3. If the internal supply is not structurally competitive, mitigate the energy offers of internal suppliers. The CAISO would not test the external supply for structural competitiveness or mitigate the energy offers of external suppliers.

In general, the CAISO's initial conceptual design is a reasonable starting point for discussions regarding system market power mitigation.

MRP supports these elements of the CAISO's proposal:

- To apply system-level market power mitigation only to the real-time market.
- To test internal supply for system market power only when the CAISO BAA is import-constrained.
  - The CAISO has proposed to consider the CAISO BAA "import-constrained" when its three largest intertie delivery points (Malin, NOB and Palo Verde) are simultaneously import-constrained. While the CAISO presented information as to how often the CAISO BAA was import-constrained in 2018 (not at all) and how often these three major delivery points were import-constrained in 2018 (one fifteen-minute interval), MRP respectfully requests the CAISO provide market participants with additional information to help them consider the CAISO's proposal. MRP requests that the CAISO provide to market participants, for each 2018 hour, (1) the MW import capability for the CAISO BAA and (2) the MW import capability for each of these three major delivery points.

MRP offers these comments and questions:

- The CAISO asserts that, if the CAISO is import-constrained (i.e., the CAISO is importing power across all interties at their import limits), there is no opportunity for external suppliers to exercise market power. This would be true if all intertie supply had been secured infra-marginally through the CAISO's competitive energy market; however, if the CAISO operators had utilized Exceptional Dispatch to secure intertie supply, it is possible that exceptionally dispatched import suppliers had exercised market power.
- MRP fully agrees with the CAISO's observation that it cannot assess the structural competitiveness of external supply. MRP also agrees that if external supply conditions are

Middle River Power, LLC Comments on  
*System-Level Market Power Mitigation Conceptual Design Proposal*

structurally uncompetitive, applying mitigation to internal resources alone is unlikely to mitigate market power within the CAISO because external supply will remain unmitigated and will set the CAISO's clearing price if any amount of external supply is needed to clear demand. As the CAISO observes, mitigating CAISO prices will cause external supply to seek to sink elsewhere, where mitigation has not been applied. This, in turn, will exacerbate supply/demand imbalance in the CAISO and could threaten the CAISO's ability to serve demand within its BAA.

- In noting the difficulties associated with applying market power mitigation to energy offers from resources outside of the CAISO, the CAISO offers that, instead of mitigating energy offers from all import suppliers, it could mitigate the energy offers from RA import suppliers. Under conditions that are not structurally competitive, this treatment would afford consistent treatment between internal resources and import resources. It would not, however, solve the problem of uncompetitive and unmitigated import supply potentially setting the CAISO's market clearing price – or exercising market power through Exceptional Dispatch - if the CAISO was relying on any amount of non-RA import supply to serve CAISO demand.
- MRP appreciates that the CAISO has put out a conceptual design, and that many details remain to be discussed before system-level market power mitigation could be proposed and implemented. MRP concludes by noting that if the CAISO moves forward to propose system-level market power mitigation, those yet undiscussed details will be critically important. Such details include:
  - How offers will be mitigated and whether those offers will include opportunity costs;
  - Whether the three-pivotal-supplier Residual Supply Index is the right test for structural competitiveness, or will result in potentially damaging over-mitigation;
  - Whether the supply portfolios of net buyers will be among those considered as potentially pivotal (MRP holds that they should not be); and
  - How any assessment of system market power will consider whether the potential to exercise system market power arises from supply scarcity and take appropriate action if scarcity is the real driver. MRP does not dispute that it is appropriate to apply market power mitigation when market power can result from undue ownership concentration. Where the potential to exercise system market power arises from scarcity, however, mitigating energy offers sends exactly the wrong market signal.