

Memorandum

To: ISO Board of Governors

From: Benjamin F. Hobbs, Chair, ISO Market Surveillance Committee

Date: November 11, 2020

Re: **Briefing on MSC activities from September 23, 2020 to Nov. 10, 2020**

This memorandum does not require Board action.

During the period covered by this memorandum, the MSC held one general session meeting on October 9, 2020. The MSC also began preparation of an Opinion on the ISO's system market power mitigation initiative, which we are planning to present at the December 2020 EIM Governing Body and ISO Board of Governors meetings. The next general session meeting is scheduled for November 13, 2020, to address the resource adequacy enhancements and system market power mitigation initiatives.

General Session Meeting of October 9, 2020

There were three substantive items on the agenda of this general session meeting. The first was a briefing on the August heat wave events. The second and third items addressed the system market power initiative and resource adequacy initiative, respectively. These agenda items are briefly summarized below.

1. Briefing on the August heat wave events.

Dr. Guillermo Bautista Alderete, Director of Market Analysis and Forecasting, made a presentation summarizing data and preliminary analyses of the events during the heat rate. The data included information on meteorological conditions; California and external energy prices; flows, exports, imports and congestion on the interties between California and the Northwest and Southwest; and supplies provided by resource adequacy capacity, demand response, and other sources. He made particular note of intertie deratings from the Northwest that prevented additional imports from that region; the role of convergence bids; and the amounts of exports over the Palo Verde intertie and their relationship to operations of resource adequacy capacity. Additional analyses are ongoing and will be reported on later.

Stakeholder discussion focused on several topics. One was price risks that importers face in these circumstances by selling to the ISO in the hour-ahead market when the fifteen minute prices at which they would be settled at night might be much lower. Another topic was supplies associated with resource adequacy capacity, and whether such capacity was supporting exports from California. Discussion focused on how day-ahead export schedules of resource adequacy capacity and non-resource adequacy capacity-backed energy schedules would be treated if the capacity was not fully scheduled in the day-ahead residual unit commitment. There was also discussion of the

September 5 change in which exports not cleared in the reliability unit commitment process of the day-ahead market were to be set a non-firm priority and subject to being cut during times of supply limitations; a stakeholder concern was expressed over possible disruption to the market, and the desirability of adequate notification. One MSC member argued that if California was in a supply limited situation in real-time, it should cut non-resource adequacy capacity-backed export schedules, as PJM does. Dr. Bautista expressed the view that some export schedules supported by CAISO RA resources should not be cut by the CAISO to avoid load shedding because the export schedules may support other import schedules to the ISO.

2. System Market Power Mitigation

This agenda item started with a presentation by Perry Servedio, Lead Market Design Policy Developer at the ISO. He described three changes that have been made to the ISO's proposal, which appeared in the revised draft final proposal of September 15, 2020.¹ The presentation addressed three specific topics. These issues will also be considered in the MSC's opinion on the initiative, which is in preparation.

The first topic is the choice of trigger for the system market power mitigation process. The ISO has dropped the use of the day-ahead bilateral index price. At the July 30, 2020 MSC general session meeting, Dr. Jim Bushnell of the MSC had previously discussed the significant challenges and potential for errors in estimating relevant hourly indices based on the price of multi-hour block contracts, assuming a within-day profile of prices. Stakeholders focused on speculating on the possible effects mitigation would have had during the August events, in particular whether it could have resulted in fewer imports being available to California or changes in prices. There is no conclusion yet available from ISO data or analyses about what price impacts might have occurred in that counterfactual.

The second topic was the definition of the competitive locational marginal price based on the second-highest price among balancing authorities in the energy imbalance market. Mitigation would occur only if the ISO was in the highest priced area in that market. There was lengthy discussion about mitigation of bids on unconstrained ties in the constrained region. An MSC member expressed concern over whether applying a pivotal supplier test on a tie-by-tie basis in addition to applying it to the constrained area would be, in a sense, pancaking 3 pivotal supplier tests into the equivalent of a 6 (or more) pivotal supplier test

The third topic addressed whether implementation of system market power mitigation should take place at the same time as implementation of the ISO's scarcity pricing improvements initiative, which will be considered next year, or whether system market power mitigation should proceed now. MSC members expressed support for the scarcity pricing initiative in part because of the events during the August heat wave, but did not make a recommendation during this meeting about delaying the system market power mitigation initiative. As general principles, members of the MSC agreed with the ISO that it is a poor market design to rely on exercise of market power to effectuate scarcity premiums in market prices, and support price formation through co-optimization of operating reserves and energy in real-time. Stakeholder discussion suggested that prices in the ISO would have been higher in the August events if

¹ Available at <https://stakeholdercenter.caiso.com/StakeholderInitiatives/System-market-power-mitigation>.

scarcity pricing was implemented.

3. Resource Adequacy Enhancements

Due to the previous agenda items running over time, this agenda item was abbreviated with additional discussion to take place during the scheduled November 13 general session meeting. The presentation by Lauren Carr, Dr. Bridget Sparks, and Gabe Murtaugh of Infrastructure and Regulatory Policy at the ISO was to address unforced capacity evaluations, which was tentatively deferred to a MSC meeting later in the year, and operationalizing storage resources, which was the focus of discussion on October 9.

Several stakeholders expressed concern over the ISO's proposal for a minimum charge requirement, and its impact on the storage owner's flexibility to respond to system conditions. One storage resource owner expressed a preference for the present system's reliance on exceptional dispatch, as that does give the operator the ability to require a minimum charge level without making that obligation the default for every day. Another stakeholder suggested that the day-ahead (integrated forward market) hourly scheduler could be run two or more additional times during the day in order to update prices and storage schedules, and deal with the issue of the real-time market's short time horizon, which results in nearsighted disregard of intervals beyond that horizon.

This is a complicated initiative with many issues, and the MSC looks forward to discussing them with staff and stakeholders at future meetings.