MOTION TO INTERVENE AND COMMENTS
OF THE DEPARTMENT OF MARKET MONITORING
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION


In this proceeding, the Western Power Trading Forum ("WPTF") has requested that the Federal Energy Regulatory Commission ("Commission") extend the deadline for the submission of cost justification filings for spot market sales in the Western Electric Coordinating Council ("WECC") outside the California Independent System Operator ("CAISO") markets that exceed the "soft" cap of $1,000/MWh during August 2020.\(^1\) WPTF also asks for Commission guidance as to what information should be included in such cost justification filings. WPTF requests the Commission for a shortened answer period and

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\(^1\) Western Power Trading Forum Request for WECC Soft Cap Filing Extension, Clarification on Appropriate Elements, and Expedited Consideration, EL-56-000, August 27, 2020.
II. COMMENTS

Summary

DMM supports WPTF’s request that the Commission grant a one-time 30-day extension and agrees that “granting the extension will enable market participants to submit more accurate cost justification filings that are more useful to buyers than filings that could be incomplete, missing information, or otherwise inconsistent with the Commission’s expectations as a result of the current limited window of time that market participants have to prepare their cost justification filings”.2

DMM agrees that it would be useful for the Commission to provide some guidance as to what information and supporting documentation should be included to justify bids that exceed the WECC Soft Cap. However, given the expedited process being requested and the absence of precedent under the WECC Soft Cap, DMM believes that any such guidance should not place limitations on the type of supporting information and criteria that may ultimately be required for sellers to justify bids over the $1,000/MWh soft cap. Instead, DMM recommends that the Commission provide for a thorough process of review and consideration of cost justification filing by buyers and the Commission. Such a process will allow any requirements and criteria adopted by the Commission to be based on a more complete record of information and input, reflecting the fact

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2 WPTF Request for Extension, Clarification and Expedited Consideration, p.7.
that the Commission “cannot anticipate all of the possible reasons a supplier may exceed the soft cap.”

Finally, due to the significant broader market impacts that bilateral bids and trades at prices in excess of the WECC soft cap can have, DMM requests that the Commission perform its own review of information submitted in this proceeding, along with other sources of relevant (and often confidential) information which the Commission may have access to or acquire. As explained in the following sections of these comments, bilateral price indices reported for Western trading hubs are utilized in numerous ways which greatly magnify the impact of these indices on the broader bilateral markets, the CAISO markets and the Western Energy Imbalance Market. The Commission is uniquely authorized to review energy trades over the $1,000/MW WECC soft cap in order to ensure the integrity of these bilateral price indices and avoid detrimental impacts on the broader energy markets in the west.

**Bilateral market prices**

The interaction of organized and bilateral market prices for electricity is widely recognized. This inter-relationship is particularly important in the western energy markets since the CAISO operates the only organized markets, with a large volume of transactions occurring at bilateral trading hubs across the west. Prices in regional bilateral hubs can affect prices in the CAISO markets -- and vice versa.

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In addition, bilateral price indices for day-ahead trading at hubs in other parts of the west are directly used in the CAISO as an input to the formulas used to set default energy bids for many limited energy resources in the Energy Imbalance Market. These day-ahead price indices are used along with reported prices for longer-term bilateral transactions (e.g. balance-of-month and monthly futures prices) as a proxy for estimating potential opportunity costs of hydro resources energy with storage capacity. Thus, bilateral trades in excess of the WECC soft cap which are reported at different western trading hubs can ultimately result in extremely high default energy bids for resources in the Western Energy Imbalance Market.

Due to the potential direct and indirect effects of bilateral market indices on prices in the CAISO and Western Energy Imbalance Market, DMM encourages the Commission to carefully scrutinize transactions and conditions leading to extremely high prices in excess of the soft cap which play a role in setting these bilateral price indices. Available data on bilateral market prices and transactions at the Palo Verde trading hub during the August 18-19 period illustrate the need for such scrutiny.

Figure 1 shows bilateral day ahead market price indices for peak power at the Palo Verde trading hub and the major trading hub in nearby Southern California (SP15) from August 13 to 21. As shown in Figure 1, price indices for the Palo Verde trading hub reported by ICE and SNL both tend to be highly correlated with bilateral prices for ICE trades at SP15. DMM understands that the SNL price index represents a weighted average that includes ICE trades along with other bilateral market trades. However, on August 18 both the ICE and SNL indices both rose to about $1,300/MWh compared to about $600/MWh at SP15. On August 19, the Palo Verde price index
reported by ICE remained over $1,300/MWh while the index for SNL dropped to about $200/MWh.

**Figure 1.** Day-ahead prices (Peak hours 7-22)

**Figure 2.** Day-ahead market volumes (ICE, Peak hours 7-22)
As shown in Figure 2, the ICE day-ahead bilateral market price index for peak power trades at Palo Verde on August 18 and 19 was based on a relatively small trading volume (400 MW per hour on August 18 and only 125 MW per hour on August 19). The number of trades and entities transacting on ICE for power at Palo Verde was also very low on these days. These data suggests that the market for day-ahead peak energy at Palo Verde on ICE was quite limited and potentially illiquid. In addition, the much lower weighted average price reported by SNL for August 19 suggests that, on that day, trades on ICE were not representative of overall bilateral market prices on that day.

DMM believes these data illustrate the need for the Commission to carefully scrutinize transactions and conditions leading to extremely high prices in excess of the soft cap at the Palo Verde trading hub on August 18 and 19.

II. MOTION TO INTERVENE

DMM respectfully requests that the Commission afford due consideration to these comments and motion to intervene, and afford DMM full rights as a party to this proceeding. Pursuant to the Commission’s Order 719, as the CAISO’s Independent Market Monitor, the mission of DMM is as follows:

To provide independent oversight and analysis of the CAISO Markets for the protection of consumers and Market Participants by the identification and reporting of market design flaws, potential market rule violations, and market power abuses.4

The CAISO tariff states that “DMM shall review and report on market trends and the performance of the wholesale markets to the CAISO, the CAISO Governing

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4 CAISO Tariff Appendix P, Section 1.2.
Board, FERC staff, the California Public Utilities Commission, Market Participants, and other interested entities.” As this proceeding involves events and issues that impact the performance of the CAISO’s wholesale markets, it implicates matters within DMM’s purview.

III. CONCLUSION

DMM respectfully requests that the Commission afford due consideration to these comments as it evaluates the proposed tariff provisions before it.

Respectfully submitted,

/s/ Eric Hildebrandt

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Independent Market Monitor for the California Independent System Operator

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5 CAISO Tariff Appendix P, Section 5.1.
CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission’s Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 1st day of September, 2020.

/s/ Candace McCown
Candace McCown