

NRG Energy, Inc. (“NRG”) appreciates the opportunity to provide these comments following the CAISO’s July 15, 2019 System-Level Market Power Working Group meeting.

Unlike analyses of local market power, in which (1) transmission constraints and network topology serve to bound the potential supply stack in a relatively straightforward and precise manner, and (2) ownership concentration considerations typically come into play, assessing the potential supply stack from which the CAISO can draw to meet system-level demand, and assessing the potential for system market power, is far less straightforward. The CAISO has presented analyses that focus on the CAISO’s input supply stack under various conditions, but the CAISO has not yet conducted an interconnection-level fundamental analysis to evaluate the elasticity of intertie supply.

While NRG also has not conducted an analysis of intertie supply elasticity, it seems intuitive that any efforts to impose California-specific price caps cannot and will not serve to attract additional needed intertie supply to California. Markets do not just work in one direction, namely, to drive prices lower. Well-functioning markets *should* signal tighter supply conditions through higher prices; those higher prices will attract additional entry. Given that import capability does not yet constrain energy market participation, capping CAISO energy prices, or capping energy offers below the current circuit breaker offer caps levels, would almost certainly prove to be counter-productive.

The CAISO noted at the July 15 meeting that ownership concentration is not an issue and that import bids rarely set the system marginal energy price. Again, these observations point to intertie supply elasticity as the key variable in this consideration.

NRG agrees that consideration of system-level market power must also bring in consideration of (1) LSE forward hedging practices (with the right market products, not those with “must deliver” obligations), (2) interaction with the RA program, especially concerning RA import rules, which are being concurrently examined, and (3) scarcity pricing.

NRG does not support the proposal that RA imports be moved from a “must offer” obligation to a “must deliver” obligation. The forced delivery of import energy across what could be a wide range of system conditions would detrimentally undermine proper price formation in the CAISO’s energy markets.

NRG agrees that any proposal that involves capping import bids at “cost” opens a can of worms, the wriggliest of which is to try to identify an import’s “true” cost. An import’s relevant cost may well be its opportunity of selling to someone other than California, which brings the discussion right back to the fundamental issue of import elasticity.

In sum, NRG appreciates the CAISO’s measured and thoughtful consideration of this issue and looks forward to continued exploration of the nature of the problem and a thorough consideration of the pros, cons and collateral impacts of potential “solutions”.