



## **Local Market Power Mitigation Enhancements Issue Paper/Straw Proposal**

**Public Generating Pool Comments  
October 3, 2018**

The Public Generating Pool (PGP) appreciates the opportunity to comment on the California ISO's Local Market Power Mitigation Enhancements Issue Paper and Straw Proposal that was published on September 13, 2018 and discussed with stakeholders on September 19, 2018. PGP represents ten consumer-owned utilities in Oregon and Washington that own almost 6,000 MW of generation, 4,500 MW of which is hydro and 95% of which is carbon-free. Three of the PGP members operate their own Balancing Authority Area (BAA), while the remaining members have service territories within the Bonneville Power Administration's (BPA) BAA.

PGP members are not currently participants in the EIM. However, BPA and other BAAs continue to evaluate the costs and benefits of EIM participation. Market power mitigation is a critical issue for PGP members in their consideration of EIM participation.

### **I. MARKET POWER MITIGATION REQUIRES A MULTI-PRONGED APPROACH**

PGP believes a multi-pronged approach to market power mitigation is needed to address the shortfalls of CAISO's current market power mitigation process. PGP maintains the following values when considering CAISO's proposed market power mitigation changes.

- Mitigation should be applied only to the interval in which LMPM is triggered.
- Mitigation should only be triggered where there is an attempt to exercise local market power.
- The amount of supply that is mitigated should be limited to the portion that is needed to protect against market power.
- The EIM use-limited DEB must recognize the sales opportunities in future time periods and to multiple geographic locations.

PGP is encouraged by CAISO's initial straw proposal that seeks to limit the frequency and volume of market power mitigation to what is needed to protect against market power and develop a workable default energy bid (DEB) option for EIM use-limited resources. PGP is supportive of CAISO's direction and many of the proposed enhancements, but believes critical improvements are needed in order to incent additional participation of Pacific Northwest hydro resources in the EIM.

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## II. REQUEST FOR CONSIDERATION OF A CONDUCT EXEMPTION

PGP continues to believe a significant gap exists in CAISO's current market power mitigation approach in that offers are mitigated merely when there is *potential* for market power, regardless of whether or not there is an *attempt* to impact market outcomes through notably high offer prices. An unintentional and adverse consequence of CAISO's current approach is that resources are inappropriately mitigated, leading to unnecessary and undesirable changes in dispatch. PGP reiterates that it is highly problematic to have water used and reservoirs depleted for generation in hours when hydro owners would not otherwise generate. This results in harm both to the resource and to the market and discourages participation from hydro owners.

PGP believes that the use of a conduct and impact approach (used in other ISOs to mitigate attempts to exercise market power that will negatively impact market outcomes) would significantly reduce the risk of inappropriate mitigation. PGP understands this approach may be a heavy lift for CAISO to implement in the near term amidst the number of other implementation efforts CAISO has prioritized in its 2019 Policy Initiatives Roadmap. PGP continues to advocate for a conduct and impact approach as a long-term solution. Recognizing the implementation challenges of such an approach, PGP agrees with other stakeholder recommendations that a relatively simple solution that could provide significant benefit would be to implement a "conduct exemption". **PGP requests CAISO include within the scope of its market power mitigation stakeholder initiatives a "conduct exemption" that allows offer prices to exceed their DEB by a defined amount without triggering application of price mitigation.**

## III. SUPPORT FOR COMPETITIVE LMP ENHANCEMENTS TO PREVENT FLOW REVERSAL

**PGP is strongly supportive of CAISO addressing the issue of "flow reversal."** PGP believes CAISO's proposed improvements to the calculation of the competitive LMP may be a workable solution for addressing this issue and is supportive of the changes.

## IV. RECOMMEND MITIGATION BE LIMITED TO CAPACITY NEEDED FOR RESOURCE SUFFICIENCY

PGP agrees that given the voluntary nature of the EIM, it is inappropriate to mitigate bids for economic displacement energy. Market Power Mitigation measures in the EIM should seek to maximize participation of voluntary supply while sufficiently protecting against market

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power. Any supply offered into the EIM beyond what is needed to meet resource sufficiency requirements is voluntary and should not be mitigated.

PGP is concerned that CAISO's proposed limitation on changes in exports or imports between EIM BAAs in a constrained region may not distinguish between transfers that should be subject to mitigation and transfers that are for economic displacement, which should not be mitigated. Consequently, **PGP agrees with and recommends CAISO explore the suggestion discussed at the September 28<sup>th</sup> Market Surveillance Committee meeting that a more accurate approach to addressing this issue may be to limit the volume of offers subject to mitigation for each EIM entity to the quantity that is relied upon to serve imbalance needs.**

#### V. SUPPORT FOR ALTERNATE EIM USE-LIMITED DEB BUT REQUESTS ENHANCEMENTS

PGP strongly supports development of an alternate DEB option for use-limited resources in the EIM. PGP is supportive of many of the components CAISO proposes to incorporate in the calculation of the EIM use-limited DEB. Specifically PGP supports:

- The EIM use-limited DEB be comprised of day-ahead and months-ahead forward prices at bilateral trading hubs.
- The number of days and months of forward pricing data used in the formula be determined by the available amount of time use-limited fuel can be stored, in days and months.
- Use of a formula based on the maximum of day-ahead and forward prices representing the highest price that energy could be sold for in the future, multiplied by a scalar that appropriately accounts for volatility.

While the EIM use-limited DEB formula is a starting point towards a workable and durable solution for EIM use-limited resources, PGP is concerned that the formula as currently proposed is overly restrictive and does not take into account key considerations for Pacific Northwest hydro resources.

PGP suggests three enhancements to the EIM use-limited DEB formula that can go a long way in bridging the gap: 1) include the balance of the week and balance of the month prices to the formula; 2) increase the multiplier to recognize opportunities to sell in the best future hours/days; and 3) include multiple market locations in the DEB formula to recognize opportunities to sell to multiple locations.

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**1. Include the Balance of the Week and Balance of the Month Prices in the DEB Formula**

Including the Balance of the Week (BAL) and Balance of the month (BOM) price indices into the EIM use-limited DEB equation will help capture instances when the market reacts to temperature events that are in the 4 to 14-day range, but before the higher prices are being seen in the daily prices. For example, if extreme weather conditions are forecasted for the next week, the BAL or BOM prices would better reflect the higher prices associated with those conditions, and hence those sales opportunities, than the day-ahead peak or month-ahead forward prices. **PGP recommends the formula be modified as follows:**

***EIM Use-Limited DEB = Max (DA Peak Index, BAL Index, BOM Index, MA Index<sub>+1</sub>,...,MA Index<sub>+N</sub>) x multiplier***

**2. Increase the multiplier to recognize opportunities to sell in the highest-value hours**

The day-ahead and forward monthly price indices are calculated as the volume-weighted average of qualifying power transactions at a specific trading hub traded in a specific number of hour blocks. These price indices do not take into account that use-limited resources can shape their output to the highest-value hours within the storage horizon of the resource. A multiplier of 1.10 underestimates this capability and should be increased to account for the fact that hourly forward price indices are not available for the time horizon water can be stored for hydro resources. **PGP supports a multiplier calculated using historical analysis of the highest priced hours that can be updated if pricing relationships change materially. PGP requests CAISO analyze a range of different scalars and how they compare to historical prices.**

**3. Include multiple market locations in the DEB formula to recognize opportunities of selling to multiple locations.**

The EIM use-limited DEB formula should recognize that resources may not be limited to sales at a single location. Suppliers, such as the Bonneville Power Administration (BPA), have invested in physical transmission rights to be able to access markets in other geographic locations, like the CAISO intertie scheduling points at COB and NOB. Solely using the Mid-C price indices to calculate BPA's opportunity costs does not reflect its sales opportunities in these other markets if these other markets are more favorable. **PGP recommends CAISO explicitly include multiple market locations in the DEB formula to more accurately capture these opportunities.**

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