



Stakeholder Comments Template

System Market Power Analysis – Work Shop

| Submitted by | Organization | Date Submitted |
|-------------------------------------|---|------------------------------------|
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PGPⁱⁱ appreciates the opportunity to provide comment on CAISO’s System Market Power Analysis Workshop held on July 15, 2019. As PGP’s comments indicate below, PGP supports addressing the lack of adequate supply in the market on a system-level with enhancements to resource adequacy provisions and robust scarcity pricing provisions. Additionally, PGP does not believe sufficient evidence has been provided to necessitate implementation of a system market power mitigation process and thereby we do not support such an approach.

Please provide your organization’s comments on the following issues and questions.

1. Resource adequacy provisions and bilateral capacity contracting

Please provide your organization’s feedback on the *resource adequacy provisions and bilateral capacity contracting* topic. Please explain your rationale and include examples if applicable.

CAISO’s analysis showed consistently that the high prices that were observed and the hours in which the structural test failed were highly correlated with tight supply conditions and times when supply reserves were extremely low. Additionally, the CAISO has been shown to be several thousand MWs short Resource Adequacy (RA) supply in numerous periods pointing to a desperate need for RA reform. In response to growing concerns with the current RA requirements and provisions not resulting in an RA fleet that fully meets operational needs, CAISO has launched an RA Enhancements initiative seeking to address major gaps in the program through a holistic review of RA provisions. The CPUC has also sought feedback from stakeholders on growing reliability concerns and needed changes to the RA program.

PGP believes the consistent lack of adequate supply in the market as a whole, in correlation with increasingly high priced periods during tight supply conditions is a clear indication of scarcity conditions and that there are significant gaps in the current resource adequacy (RA) framework. As such, it is imperative that the problem is tackled at the root, by ensuring sufficient resources are available to maintain reliability and that there are robust short-term price signals to encourage market entry, participation and performance.

PGP strongly supports CAISO and the CPUC focusing substantial effort on closing the RA gaps that have been identified and are contributing to the lack of adequate supply in the market. We believe significant reform of California’s RA program is a critical component to an

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effective solution for mitigating lack of adequate supply in the market. Addressing the issue by further suppressing short-term energy prices through administrative actions will only discourage additional supply, in particular from import resources and further exacerbate the problem.

2. Load-serving entity energy procurement and hedging

Please provide your organization's feedback on the *load-serving entity energy procurement and hedging* topic. Please explain your rationale and include examples if applicable.

PGP requests more information on the effectiveness of this approach, along with potential new requirements and what this may mean in particular for RA imports.

3. System-level market power mitigation process

Please provide your organization's feedback on the *system-level market power mitigation process* topic. Please explain your rationale and include examples if applicable.

Implementation of a system-level market power mitigation process is a significant policy change that could have substantial market implications and unintended consequences. Therefore development of such a policy should only follow ample evidence of system market power occurring over time.

The presentations provided at the July 15, 2019 workshop demonstrate that there has not been sufficient evidence provided to necessitate the implementation of a system market power mitigation process. And CAISO noted significant policy development and implementation effort is required to develop a system-level market power mitigation process. There are also considerable challenges with determining accurate default energy bids for imports and significant risk of reduced participation from import resources. For all of these reasons, PGP does not believe implementation of a system-level market power mitigation process is the right solution, especially when compared to other options. Such a process would not address the root issue of inadequate supply in the market and would instead cause further harm by discouraging additional import supply. PGP agrees with many of the comments made by other stakeholders in the July 15th workshop, including:

- California's relatively high level of import capability does not constrain entry, implying that sufficient capacity is available to allow for competition.
- Residual Supply Index screen results are not a conclusive indicator of market power.
- The conditions needed to exert market power have not yet been evaluated.
- The root cause of low RSI values appear to indicate a general lack of adequate supply in the market as a whole rather than high concentration levels of resource ownership or control.

Additionally, PGP shares concerns raised by NRG, CAISO and others that addressing high prices and tight supply issues by suppressing prices through administrative pricing measures will have a significant effect on the participation of imports in the short-term CAISO energy markets. Potential mitigation of imports also creates uncertainty for external resources

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in long-term sales of import RA. System market power mitigation measures will only discourage import supply in periods when additional supply in the CAISO BAA is needed most.

PGP agrees with Powerex that the system market power concerns raised are misplaced and that high prices observed in the CIASO market reflect gaps in the RA program, as well as natural responses in the electricity market to volatile gas market conditions. PGP encourages CAISO to focus its efforts on ensuring adequate supply in the market through a robust RA program and scarcity pricing provisions.

4. Enhanced ISO market scarcity pricing provisions

Please provide your organization's feedback on the *enhanced ISO market scarcity pricing provisions* topic. Please explain your rationale and include examples if applicable.

Robust scarcity pricing provisions are critical to a well-functioning market and sending appropriate price signals to encourage supply when it is needed most to maintain reliability. PGP believes a well-functioning scarcity pricing mechanism is also critical to encouraging voluntary supply from external resources. PGP strongly supports development and implementation of a robust shortage and scarcity pricing mechanism that allows prices to increase as reserves are depleted and believes such a solution will encourage additional supply in the market.

5. Optional comments on stakeholder-presented topics

No comments.

6. Additional comments

Please offer any other feedback your organization would like to provide on the topics discussed during the workshop.

No comments.

ⁱ PGP represents eleven consumer-owned utilities in Washington and Oregon that own almost 8,000 MW of generation, 97% of which is carbon free with approximately 7,000 MW of which is hydro. Four of the PGP members operate their own balancing authority areas (BAAs), while the remaining members have service territories within the Bonneville Power Administration (BPA) BAA. As a group, PGP members also purchase over 45% of BPA's preference power.

ii **Public Generating Pool**

Benton PUD/ Chelan County PUD / Clark Public Utilities / Cowlitz County PUD / Eugene Water & Electric Board
Grant County PUD / Klickitat County PUD / Lewis County PUD / Seattle City Light/ Snohomish County PUD / Tacoma Power