



CAISO System-Level Market Power Mitigation Initiative Scoping Document

Public Generating Pool Comments
November 4, 2019

The Public Generating Pool (PGPⁱ) appreciates the opportunity to comment on the CAISO's System-Level Market Power Mitigation Initiative Scoping Document and provide feedback on CAISO's proposed principles and scope of this initiative. PGP recognizes the importance of developing principles and scope as the foundation for a successful policy initiative, however, we continue to recommend against opening a policy initiative for three key reasons:

(1) The analysis to-date does not provide compelling evidence that conditions exists at the system-level for market participants to exert market power.

The residual supply index (RSI) has limitations because while it can provide insight into the potential for uncompetitive conditions, it does not on its own provide any indication as to whether market power has been exerted. In order for market power to be exerted, market participants must have timely information about uncompetitive conditions and these conditions must be predictable and consistent. CAISO's analysis to-date has not provided any data on whether market power has been exerted when the RSI test fails, and moreover, it appears that many of the hours when the test has failed are during times of tight supply conditions in the market which suggests that these hours may be actually reflecting scarcity rather than uncompetitive conditions. Finally, CAISO's RSI analysis, despite its limitations, only indicates that market participants may have the ability to exert market power in fewer than 3% of hours.

(2) Long-term contracting, scarcity pricing, and resource adequacy requirements are better potential solutions to address system market power concerns.

PGP agrees with CAISO that protecting against system-level market power is likely better addressed through scarcity pricing and long-term contracting, which includes the long-term procurement framework and resource adequacy requirements. Tight supply conditions are at the root of concerns regarding system market power and enhancing long-term contracting and resource adequacy requirements could increase supply within the CAISO BAA. PGP believes CAISO should further explore these measures as potential solutions to concerns regarding system-level market power.

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(3) The CAISO and stakeholders' limited resources are not well utilized on a system-level market power mitigation initiative.

The CAISO and stakeholders' resources are finite and given the existing and impending policy initiatives, including major initiatives such as RA Enhancements, Day-Ahead Market Enhancements and EDAM, there is a real need for CAISO to prioritize its work on initiatives. Given that the analysis to-date does not support moving forward with system-level market power and the alternative approaches CAISO has identified as preferred to addressing system market power concerns, PGP does not believe a stakeholder initiative on system-level market power is a good use of CAISO and stakeholder resources.

PGP understands that CAISO will be making a decision and recommendation to the CAISO Board of Governors as to whether it plans to open a policy initiative on system-level market power mitigation at the November 2019 board meeting. PGP urges CAISO to recommend against opening a policy initiative for the reasons discussed above. In the case that a policy initiative does commence, PGP offers the following feedback on CAISO's proposed principles and scope for a system-level market power mitigation framework.

Principles

PGP supports CAISO's overall intent behind its principles which is to seek an effective design that does not deter supply and demand participation in its markets and does not deter long-term contracting. In order to avoid deterring supply from participating in CAISO's markets, it is essential to avoid mitigation during actual competitive conditions as this may discourage suppliers from participating in CAISO's markets and exacerbate the tight supply conditions in the CAISO BAA. In addition, as CAISO has stated, import supply offers cannot exercise market power on demand internal to the CAISO BAA. PGP offers the following revision to CAISO's second principle to clarify and address these issues:

“a supplier should not be mitigated be forced to sell power below its offer price if it cannot exert market power. Import supply offers should be not be mitigated because import supply cannot exercise market power on demand internal to the CAISO BAA. Supply offers should be mitigated to marginal costs to the extent supply has market power.”

PGP also agrees with comments made by stakeholders that a mitigation mechanism needs to be designed to ensure proper market signals are not stifled and ensures pricing can rise as supply conditions tighten, even when mitigation is being applied. To that end, we support a principle that would address this and offers the following suggestion:

“Market prices should reflect the scarcity value of supply and any mitigation mechanism should not distort proper price signals.”

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Scope

Phase I:

PGP requests that CAISO also include in the scope of Phase I the implementation of other solutions/proposals to address system-level market power. CAISO has stated that it believes long-term contracting, scarcity pricing and resource adequacy requirements are the best way to address system-market power. If an initiative is commenced to address system market power, we believe it should explore these alternative solutions in detail and that their implementation is done in parallel with system-level mitigation framework.

Regarding the elements CAISO proposes to include in the Phase I scope, PGP largely supports these suggestions. In particular, we support CAISO's proposal to only mitigate for system market power if the CAISO BAA is import-constrained and to only mitigate internal resource offers and avoid mitigation of import offers. In addition, we also support CAISO's proposal to exclude mitigating supply offers within price-converged EIM BAAs. To do otherwise would introduce undue complexity and potentially lead to unnecessary mitigation of EIM supply offers.

PGP believes it is reasonable to consider the role of a residual supply index (RSI) with a three pivotal supplier test to determine if the supply mix is competitive. However, we also note that the RSI test has limitations as discussed above and encourage CAISO to consider other methods to determine whether it is possible for a market participant to exert market power.

Phase II:

PGP recommends that the need for and scope of a Phase II of this initiative be explored at a later time. As CAISO has noted, there may be policy developments in DAME and EDAM that impact the design of a mitigation process in the day-ahead market. CAISO also proposes to consider enhancements to the EIM mitigation design, however, it is not clear why this would be in scope for a system-level market power initiative. For these reasons, PGP suggests that the scope for a future Phase II be defined at a later date, as necessary.

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.

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