



Stakeholder Comments Template

System Market Power Mitigation – Working Group

This template has been created for submission of stakeholder comments on the System-Level Market Power Mitigation – Working Group that was held on September 20, 2019.

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **October 9, 2019**.

Submitted by	Organization	Date Submitted
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Please provide your organization’s comments on the following issues and questions.

The Public Generating Pool (PGP)¹ thanks CAISO for providing stakeholders the opportunity to comment on the System Level Market Power Mitigation Working Group meeting held on September 20, 2019 and CAISO’s conceptual design proposal for system-level market power mitigation.

PGP appreciates CAISO’s analysis on the frequency and potential causes of the hours in 2018 where the CAISO BA was potentially uncompetitive. PGP does not believe that the analysis to-date has provided sufficient evidence to warrant opening a stakeholder process to design a system-level market power mitigation scheme at this time. As CAISO has noted, grid conditions are tightening and there are concerns about adequacy of supply in the CAISO BAA. There are also challenges and gaps in CAISO’s resource adequacy program that need to be addressed.

PGP offers that CAISO’s efforts and resources would be better used to explore measures that would encourage increased supply within the CAISO’s BA. Such measures include RA provisions, bilateral capacity contracting, LSE procurement and hedging and enhanced market scarcity pricing provisions. These measures may be more effective and appropriate to improve supply conditions and mitigate price spikes. Further, given changing grid conditions and market evolution in the CAISO BA and the West, PGP would support continued monitoring of system-level competitiveness going forward.

¹ PGP represents eleven consumer-owned utilities in Washington and Oregon that own almost 8,000 MW of generation, approximately 7,000 MW of which is hydro and over 97% of which is carbon free. Four of the PGP members operate their own BAAs, while the remaining members have service territories within the Bonneville Power Administration’s (BPA) BAA. As a group, PGP members also purchase over 45 percent of BPA’s preference power.

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Notwithstanding the above, should CAISO move forward and open a system-level market power mitigation initiative, PGP supports many of the key elements in CAISO's conceptual design proposal, as discussed below.

1. Proposal to apply system-level market power mitigation to the CAISO balancing area

Please provide your organization's feedback on *the proposal to apply system-level market power mitigation to the CAISO balancing area*. Please explain your rationale and include examples if applicable.

PGP does not support CAISO applying system-level market power mitigation to the CAISO BA. CAISO's analysis to-date indicates that the CAISO BA is not frequently constrained, and in fact, the three major interties were only simulatenously binding in one interval in the real-time market in 2018. Going through the effort to develop a system level market power mitigation framework that would be triggered so infrequently is not the best use of CAISO or stakeholder resources as it does not resolve the root causes of inadequate supply and price spiking events in the CAISO BA.

While PGP does not support moving forward with a system-level market power mitigation scheme, we do support many of the elements included in CAISO's conceptual design proposal. We view these as essential to any future program design for system market power mitigation:

- **Import supply offers should not be mitigated.** PGP agrees with CAISO's assessment that these suppliers would not be able to exercise market power on demand internal to the CAISO BAA. Subjecting external suppliers to the possibility of mitigation is likely to have adverse and counterproductive results by reducing the quantity of imports offered into the market. Finally, subjecting external supply to mitigation effectively assumes the Western Interconnection is not competitive.

PGP does not believe it is the purview of the CAISO to make this determination and agrees with CAISO that this would largely be an exercise in futility given CAISO's lack of jurisdiction over the Western Interconnection, the difficulty of assessing the many unknown variables such as the aggregated demand for the broader market and total available supply, as well as its aggregated bid curve and opportunity cost considerations.

- **System level mitigation should only be triggered when the CAISO BA is import constrained, and this is reasonably assessed by evaluating whether the three major interties are constrained (Malin, NOB, and Palo Verde) and conditions are found to be uncompetitive (residual supply**

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index failed for the given market interval). This approach follows CAISO’s general market power mitigation design which 1) identifies constrained areas; (2) tests supplier concentration within the constrained area; and then (3) mitigates resources as necessary in that area. Unless and until import constraints are binding, the CAISO BA is part of the the broader constrained area in the Western Interconnection, and as discussed above, the Western Interconnection should be assumed to be competitive. PGP agrees with CAISO that even if one assumes the broader Western Interconnection is NOT competitive, any measures CAISO alone could take are likely to result in negative market outcomes, such as discouraging supply from bidding into the CAISO market.

Lastly, PGP believes defining “import constrained” as the three major interties (Malin, NOB, and Palo Verde) is a reasonable starting point, however PGP is concerned that this definition may be too narrow. Even with these three major interties being constrained, CAISO may still have access to thousands of MWs from its interconnections through the Desert Southwest. With access to this additional supply, PGP questions whether CAISO is really “import constrained” with congestion limited to its three major interties.

2. Proposal to only apply system-level market power mitigation to the real-time market

Please provide your organization’s feedback on *the proposal to only apply system-level market power mitigation to the real-time market*. Please explain your rationale and include examples if applicable.

PGP understands that CAISO is proposing to only apply system-level market power mitigation to the real-time market because it perceives that the participation of price-responsive demand in the day-head market is a sufficient and effective safeguard against system level market power. CAISO also states that it will monitor market results to determine if applying system level market power mitigation to the day-ahead market in the future is warranted. PGP supports CAISO’s proposal and agrees that structural limitations may result in the real-time market being more susceptible to suppliers exercising market power, as compared to the day-ahead market.

PGP believes it is also important to avoid *unnecessary* mitigation, which may discourage supply. Given how infrequently the real-time market has experienced binding congestion of the three major interties in 2018, it is likely that a similar analysis for the day-ahead market may also reveal very few instances of congestion. For this reason, PGP believes CAISO’s proposal to exclude the day-ahead market from a system-level market power mitigation design is reasonable.

3. Proposal to consider interactions with the energy imbalance market

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Please provide your organization's feedback on *the proposal to consider interactions with the energy imbalance market*. Please explain your rationale and include examples if applicable.

PGP appreciates the CAISO's efforts to explore scenarios where system level market power mitigation in the CAISO BA would impact EIM transfers. PGP believes more analysis and discussion is needed to better understand the potential impacts to EIM transfers, were this conceptual design to be implemented.

PGP questions whether the CAISO BA should be considered constrained if EIM transfer capability into the CAISO BA exists. CAISO clears import offers on its interties as well as from EIM transfers and EIM transfers themselves can also be a source of congestion relief. PGP asks CAISO to consider how, and to what extent, EIM transfers could impact whether the CAISO BA has a binding constraint. At a minimum, any conceptual design should include further testing of EIM transfer capability, in the event the three major interties to experience congestion, before moving to test competitiveness.

4. Competitiveness evaluations and economic import offers

Please provide your organization's feedback on the topic of *competitiveness evaluations and economic import offers*. Please explain your rationale and include examples if applicable.

PGP supports CAISO's proposal to only mitigate suppliers' offers when they are in a potentially uncompetitive and constrained area. Import supply should be exempt because suppliers outside of CAISO's BAA should be presumed to have access to competitive west-wide supply and it would not be appropriate or fruitful for CAISO to evaluate competitiveness of the Western Interconnection. As CAISO points out, this would require much more information than is available to CAISO and is improper because some of the information would be required from entities not participating in CAISO's markets. See response to Question 1 for more details.

5. Potential measures the CAISO could take and likely market effects

Please provide your organization's feedback on *the potential measures the CAISO could take and likely market effects*. Please explain your rationale and include examples if applicable.

PGP agrees that if CAISO were to mitigate import supply offers, or a combination of internal supply offers or import supply offers under resource adequacy (RA) contracts, it would likely have unintended consequences such as discouraging supply from bidding into the CAISO BA or forcing suppliers to seek increased compensation through their RA contracts to help mitigate the risk of market clearing prices being below their costs of producing energy.

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6. Additional comments

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

PGP appreciates CAISO's work to develop a well-considered conceptual design for system market power mitigation. PGP believes CAISO's proposal and analysis indicates that conditions do not exist to warrant developing a system-level market power mitigation framework at this time.

Additionally, PGP requests clarity regarding why CAISO's other proposed solutions from the July 15, 2019 Stakeholder Working Group meeting - enhancements to RA provisions, bilateral capacity contracting, LSE procurement and hedging and enhanced market scarcity pricing provisions – are not being advanced in conjunction with a proposal for a System Market Power Mitigation process. We urge the CAISO to broaden this discussion of inadequate supply to include these other solutions as part of any stakeholder process that is initiated.

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