

## System Market Power Analysis – Work Shop



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

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

PPC appreciates the opportunity to provide feedback on CAISO’s System-Level Market Power Mitigation Conceptual design. PPC’s members are interested in the potential development of this policy from several perspectives: as purchasers of preference power and transmission services from BPA (who has signed an Implementation Agreement with the CAISO and is evaluating future participation in the EIM), as load serving entities outside the CAISO BAA in the current and/or future EIM footprint; and as potential EIM participants.

PPC supports the general framework and principles outlined in CAISO’s System Market Power Mitigation White Paper should CAISO proceed with implementing market power mitigation at the system-level. PPC agrees with and strongly supports CAISO staff’s perspectives and conclusions on why mitigating resources outside the CAISO BAA is inappropriate and will result in outcomes detrimental to CAISO.

However, the analysis provided by the California ISO indicates to PPC that exercise of market power in CAISO’s BAA may not be a significant issue at this time and that implementation of system-level market power mitigation may not be the most efficient use of CAISO resources at this time. CAISO’s preliminary review of data indicated only one real-time interval in FY 2018 that would have triggered the test for system-level market power when using 3 simultaneously binding interties to determine if the test should be applied. Further, CAISO’s analysis indicated that in FY 2018, there were no intervals in which more than 3 interties were simultaneously binding. The increased observance of high-priced intervals within the CAISO BAA taken in conjunction with virtually no intervals in which the CAISO was import constrained indicates that these high prices may be symptomatic of the tightening supply and demand dynamics in both the CAISO and the broader WECC rather than the exercise of market power.

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Accordingly, at this time PPC believes CAISO should consider whether other initiatives that address the tightening supply side conditions would more directly address the source of high prices in CAISO BAA before commencing a stakeholder initiative for system-level market power. PPC does support the continued monitoring of system-level competitiveness given the tightening conditions in the west and the continued transformation of market design.

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

PPC agrees with CAISO's proposal to only apply system-level market power mitigation to the real-time market. CAISO staff's assessment describes material differences between the real-time and day-ahead markets that leave the real-time market more susceptible to suppliers exercising market power. The primary difference being that the real-time market clears on forecast demand rather than bid-in demand. Allowing the market to clear on bid-in demand allows that demand to respond to price signals. In the real-time market, where the amount of demand is fixed, the market will procure sufficient supply to meet that demand regardless of price and create the opportunity to exercise market power.

PPC agrees that the cautious approach outlined in the white paper – which is to apply a system-level market power first to real-time markets and observing impacts on the day-ahead market – is the correct approach. This approach is appropriate given the potential for unnecessary or inappropriate mitigation and the detrimental effects that such mitigation may have on the volume of voluntary economic bids for CAISO supply.

### **3. Proposal to consider interactions with the energy imbalance market**

PPC would like more clarification on the proposal to consider interactions with the energy imbalance market. Particularly, we are seeking additional clarity on the different outcomes that can occur on a path that has EIM transfer capacity as well as capacity not allocated to the EIM. Additionally, PPC seeks clarity on how interties between a EIM BAA and non-EIM BAA may or not be included in determining when it is appropriate to mitigate supply offers.

### **4. Competitiveness evaluations and economic import offers**

Simultaneous binding on major transmission interties into the CAISO BAA indicates that the CAISO is cut off from other competitive markets in WECC and should be used to identify intervals where supply in the CAISO BAA is potentially uncompetitive. The choice to use the Malin, NOB and Palo Verde interties is a good starting point, but additional analysis is needed to determine if that specific combination of interties is the best representation of CAISO's access to competitive west-wide power.

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PPC agrees with and strongly supports CAISO staff's perspectives and conclusions on why mitigating resources outside the CAISO BAA is inappropriate and will result in outcomes detrimental to CAISO. As explained by CAISO, unless import constraints are actively binding, the CAISO is part of a broader supply constrained area within the WECC. Mitigating the broader constrained area would be unworkable and incomplete for a single market operator and beyond the purview of CAISO. Additionally, mitigating only a portion of suppliers within the broader constrained area could decrease supply to CAISO as voluntary supply may participate in the uncompetitive constrained area instead of CAISO. PPC also agrees with CAISO's assessment of the potential negative outcomes of mitigating external resources in the case the broader WECC is uncompetitive.

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

PPC agrees with CAISO's assessment that in a scenario in which the broader WECC is uncompetitive, any actions CAISO could take would be unproductive and possibly detrimental. Mitigating supply offers in these cases could lead to voluntary supply moving away from CAISO to parallel western markets rather than risk offer mitigation. Mitigating resource adequacy offers may shift the market power concern to bilateral resource adequacy import contracts.

### **6. Additional comments**

PPC appreciates the thoughtful approach CAISO has taken to exploring the implementation of a system-level market power mitigation framework and the examination of the implications of different approaches to mitigating supply offers.

While we agree with the CAISO's conceptual proposal for applying System Market Power Mitigation, we would like to further explore whether market power is being exercised in the CAISO BAA prior to creating a CAISO initiative to address that issue. If exercise of market power is not the cause of high prices in CAISO's BAA, implementing such a policy will not be the most effective approach to addressing concerns about competitiveness and price spikes within CAISO's BAA. As stated above, CAISO has identified other initiatives aimed at addressing tightening supply side issues that may be a more efficient approach to addressing these concerns at this time.

While the data does not suggest that market power is being exercised in CAISO's BAA at this time, PPC supports continued monitoring of system-level competitiveness, particularly as western markets continue to evolve and lead to changes in market conditions.