Stakeholder Comments
Local Market Power Mitigation (LMPM) Enhancements 2018

Submitted by	Company	Date Submitted
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SCE appreciates the opportunity to provide the following comments on the CAISO LMPM Enhancements Draft Final Proposal (the Proposal) initially posted on January 16, 2019 and updated on January 31, 2019[1].

1. New default energy bid (DEB) option for hydro with storage capability
    1) The Proposal fails to recognize the importance of using appropriate gas price indices for hydro resources with storage capability

    As stated in its prior comments[2], SCE believes that the Gas Price Index (GPI) for a hydro resource should capture the *highest* gas price across the BAA where the hydro resource is located. This is necessary to ensure that hydro resources can capture the opportunity costs due to deliverability issues related to a gas system, for example, such as events when the SoCalGas system is severely constrained and the gas price is volatile. Utilizing the highest gas price is appropriate since the energy output from hydro resources can be used to displace other generating resources on the grid. As such, the cost of gas for any resource on the CAISO controlled grid is an appropriate measure. The Draft Final Proposal fails to recognize this and can result in under-estimated opportunity costs for hydro resources in event of a gas Operating Flow Order (OFO)/ transportation issue.

    In addition, the process of how fuel regions are mapped to hydro resources may need to be further examined to ensure those fuel regions are appropriately assigned, consistent with the intent of the policies proposed by the CAISO.

    2) The calculation and validation around multiple trading hubs adds to the complexity; as such the associated administrative costs should be borne by entities benefiting from this option

    In the Proposal, the CAISO proposes that multiple trading hubs be considered for the proposed geographic floor calculation. The calculation would be daily and involve multiple price indices at multiple locations for each hydro resource that requests such treatment. The CAISO would need to develop a new process for the documentation and validation of these locations along with transmission right profile provided by the resource. This adds to the complexity of the

[1] CAISO Draft Final Proposal, http://www.caiso.com/Documents/DraftFinalProposal-LocalMarketPowerMitigationEnhancements-UpdatedJan31_2019.pdf.
[2] SCE comments on the Revised Straw Proposal: http://www.caiso.com/Documents/SCEComments-LocalMarketPowerMitigationEnhancements-RevisedStrawProposal.pdf

design and the administrative costs of this new process will not likely be minimal. As such, the costs should be borne by entities using this option[3].

2. Proposed measure to address Energy Imbalance Market (EIM) "economic displacement"

Throughout the stakeholder process, several concerns[4] were raised by stakeholders on this aspect of the CAISO proposal to address EIM "economic displacement". There was also discussion during the Jan 25th Market Surveillance Committee (MSC) meeting on whether the calculation of the limit should be based on the Balance Authority Area (BAA)'s flexible ramping award minus the requirement, or just the award itself, to appropriately account for EIM diversity benefits within the calculation. The concerns raised by stakeholders have not been addressed under the CAISO Proposal – even the proposed feature, i.e., limiting net export once mitigated, is optional for an EIM BAA, the proposal leads to similar concerns when the feature is triggered. As such, SCE does not support this aspect of the Proposal.

1) The Proposal does not explain why a BAA-level restriction is needed with a market power mitigation designed at a local-constraint level

Given the purpose of market power mitigation mechanisms is to ensure a competitive outcome, a question is raised regarding why there should be a restriction on a resource's output when the mitigation mechanism triggers (despite that the energy from the resource may be otherwise economic). Restricting a resource's output when its bids are mitigated seems contradictory to the objective of the market power mitigation and as such will increase market costs.

Under the CAISO proposal, this restriction would apply to an entire BAA, which raises another question regarding why an entity, that may schedule market activities at a BAA level, would be able to restrict the output of its BAA (i.e. the net export of its BAA) when a (single) resource inside its BAA is mitigated for local market power issues. The CAISO proposal can lead to bidding behavior and incentive issues. These issues must be addressed if the CAISO proceeds with this proposal.

Consider an EIM BAA that has multiple parties. Under the proposal it will be possible that the EIM BAA may be able to restrict the output of the resources from those parties even if they would otherwise be economic to serve CAISO or other EIM BAAs. The EIM BAA will likely have an

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[3] Alternatively, the CAISO could consider eliminating this option given the complexity and costs, or developing other solutions, including the solution suggested in prior SCE comments.

[4] Concerns include impacts to the market efficiency, and the use of potentially uncompetitive input in market clearing, the meaning of resultant price signal, etc. See SCE prior comments for a list of concerns raised by stakeholders, p. 2 at http://www.caiso.com/Documents/SCESupplementalComments-LocalMarketPowerMitigationEnhancements-IssuePaper-StrawProposal.pdf. Several entities do not support this aspect of the Proposal because of these concerns.

incentive to bid its own resource in a way to purposely trigger the market power mitigation to reserve sufficient, possibly lower-cost resources for its own BA needs[5].

The CAISO has stated that EIM entities may currently have the option to reduce its EIM transfer capacity offered to the EIM and that the Proposal would be superior to the current option given the Proposal would still allow wheeling-through. However, if the EIM BAA is radially connected to the EIM, the Proposal would not provide this benefit but has many undesired effects.

2) The proposed measures on competitive Locational Marginal Price (LMP) and hydro DEB make the "economic displacement" proposal unnecessary

As commented by stakeholders, this aspect of the CAISO Proposal does not seem necessary given the current development of other elements under this Proposal. In particular, with an accurate market-wide competitive LMP and accurate DEB (within which opportunity costs can be appropriately reflected), the resource should be fully optimized by the market and there should be no need to reserve its output based on its DEB. Given all the undesired effects, at the minimum, this aspect of the proposal should be further evaluated, if not removed, *after* other elements of the proposal are implemented. Once implemented, the CAISO will have additional information to decide if this aspect of the proposal is still needed, and if so, how the issues will be addressed.

3. Reference level adjustments

Regarding the proposal to use Monday-only gas price indices in the market, the CAISO should examine whether there should be any requirement on the liquidity, for example, should the transaction volume behind the Monday-only index exceed a threshold, for the CAISO to use the index on a specific day.

Regarding the proposal to update reasonableness thresholds for all resources in the same fuel region when the CAISO has sufficient information either through same-day gas trades on ICE and/or

[5] A hypothetical example: the EIM BAA in question has pre-mitigation net export of X MW and consists of its own resources as well as resources owned by other parties. The BAA can bid in a way to trigger the market power mitigation, for instance, by bidding high on one of its own resources in a local constraint. As a result of the bidding, the mitigation may trigger when the local constraint binds. Once the mitigation triggers, it will be able to freeze the net export at X MW to ensure it will have sufficient resources for its own. Assume X equals 100 MW: 50MW from its own resource and 50MW from another party. It can bid high on its own resource, and when it is mitigated due to a local constraint, the output from this resource can be higher than its pre-mitigation level (assuming the new dispatch for this resource is at 80MW). Now when the net exporting is fixed at 100MW under the CAISO proposal, the output of the remaining resources located in the BAA will likely be lowered (by 30MW from 50MW to 20MW in this example) to keep the total net exporting flow unchanged at 100MW. The end results are 1) the EIM BAA has sufficient, possibly lower-cost, resources to serve its own load, and 2) resources in its BAA are restricted from economically serving load outside the BAA.

manual consultations, it's unclear how the same fuel region is defined in this context. Again, the process of how fuel regions are defined should be examined to ensure those fuel regions are appropriately assigned, consistent with the intent of the polices proposed by the CAISO.