

Stakeholder Comments

Local Market Power Mitigation (LMPM) Enhancements 2018

Submitted by	Company	Date Submitted
Wei Zhou (wei.zhou@sce.com)	SCE	Oct 17, 2018

SCE appreciates the opportunity to provide comments on the CAISO LMPM Enhancements October 10, 2018 Workshop¹. In general, the aspects of the CAISO proposals that aim to improve the accuracy of the process or the cost profile of resources (i.e. the proposal of calculating competitive LMPs in each market run and the effort to improve default energy bid options) should be the focus of this initiative. While other aspects (i.e., the proposal of introducing an adder and a new constraint to restrict inter-EIM Balancing Authority Area (BAA) flows) may be important, they should be further evaluated, if not removed, as the downsides of these proposals could outweigh the benefits.

1. The need of an adder to competitive LMPs should be evaluated after the implementation of other aspects of the proposals under this initiative.

There seems a general consensus among the stakeholders that the proposal of calculating competitive LMPs in each market run should essentially address concerns around the “flow reversal” issue. Therefore, the proposal of introducing an adder on top of the competitive LMP for a group of resources may not be necessary. Further there are several downsides of applying this adder, including:

- Complexity in determining the value of this adder. As this adder will increase LMPs when applied to marginal resources, it should be small. However, it’s unclear how small it can be to ensure the flow is not “reversed”.
- Implication to resource dispatch²
- Inconsistency in how it is applied to internal and EIM constraints³

As suggested by the stakeholders during the workshop, the proposal of introducing this adder may not be necessary at this stage. The CAISO and the stakeholders likely will be better positioned to decide whether this proposal should be pursued after other aspects of the proposals in this initiative are implemented.

2. The underlying issue for the proposal of limiting inter-EIM BAA flows needs to be further evaluated within the framework of the EIM. The EIM resource sufficiency tests were designed

¹ October 10, 2018 workshop, <http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=434376F2-D363-4FCB-9168-9F0385AF65D8>.

² In particular to those resources with a difference in their bid prices that is less than the value of the adder.

³ Absence of this adder, the current LMPM applies to both internal and EIM constraints equally. However, there would be no economic justification to apply this same adder to internal constraints.

for the sole purpose of addressing “resource leaning”. The new proposal must be evaluated along with this foundational design in its totality if there is an issue of “resource leaning”.

Several concerns have been brought up by the stakeholders during the workshop regarding the proposal of limiting EIM transfers between EIM BAAs, including

- Impact to EIM market base rate studies,
- Underutilizing transmission offered into the EIM,
- The use of market power mitigation flow (potentially an uncompetitive outcome) in the market clearing,
- Impact to transfers across BAAs within EIM⁴,
- The meaning of the associated price signal and resultant market costs,
- And the general market efficiency.

In addition to these concerns, the underlying issue that drives the need of this proposal must be further evaluated within the framework of the EIM. The CAISO has phrased the issue as “economic displacement” and uses this as the basis for the need of the proposal. The proposal has been viewed as a means to prevent one EIM Entity from relying on another EIM Entity to serve its load and imbalance needs⁵. Since the EIM resource sufficiency tests were designed for the sole purpose of addressing “resource leaning”, the new proposal must be evaluated along with this foundational design in its totality if the CAISO continues to believe there is an issue of “resource leaning”. When all EIM Entities bring to the EIM sufficient resources to meet their own load and imbalance needs, and given the voluntary nature of the participation, why would an issue of “resource leaning” still exist?

3. The proposed default energy bid (DEB) option for EIM use-limited resources

While *legitimate* costs of resources should generally be allowed in the markets, there should be sufficient measures in place to ensure they are legitimate costs. The new DEB option should not include price indices from illiquid markets or based on illiquid locations or from a time period of very low liquidity. Instead, only reliable and liquid price indices should be used. In addition, as demonstrated by the analysis presented during the workshop, the accuracy of a DEB heavily depends on the resource’s specific characteristics, such as MWh limitation, which seems to suggest that the negotiated DEB option should be considered as one viable option. A formulaic approach should not be over relied on as such an approach could lead to significantly overstated DEBs (and likely understated DEBs at the same time).

⁴ It was discussed that transfers across BAAs within EIM may not be directly impacted if the limitation is modeled as a scheduling type of constraint, rather than a flow-based constraint. The CAISO should provide details and confirm this understanding.

⁵ E.g., Powerex’s comments, available at <http://www.caiso.com/Documents/PowerexComments-LocalMarketPowerMitigationEnhancements-IssuePaper-StrawProposal.pdf>.