

Comments of Seattle City Light on Local Market Power Mitigation Enhancements Revised Draft Final Proposal

Submitted by	Company	Date Submitted
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Seattle City Light (Seattle) is the tenth-largest consumer owned electric utility in the nation, providing electrical service to more than 415,000 residential, commercial, and industrial customers in the City of Seattle, Washington and six adjacent cities. Seattle owns and operates hydroelectric resources with approximately 2,000 MW of flexible, fast-ramping capacity. We regularly transact in the wholesale energy and transmission markets. Seattle executed an Implementation Agreement with the California Independent System Operator (CAISO) and intends to begin participating in the Energy Imbalance Market (EIM) in April 2020.

Summary of Comments and Recommendations

Seattle City Light appreciates the opportunity to comment on CAISO’s Revised Draft Final Proposal on the Local Market Power Mitigation Enhancements Initiative. Seattle commends CAISO for the significant progress made on the issues of flow reversal, economic displacement and the hydro default energy bid. Seattle is very supportive of the following changes CAISO has included into this latest version of the proposal:

- Incorporate multiple trading hubs in the DEB formula for all hydro resources, both short-term and long-term, that can demonstrate transmission rights to multiple trading hubs.
- Increase the hydro DEB multiplier for short-term resources to 140%.
- Clarify that resources termed “run-of-river” hydro are not excluded from the hydro DEB option, to the extent these resources have the ability to store water and respond to dispatch instructions from the CAISO.
- Replace the average heat rate with a peaking heat rate in the calculation of the gas price floor.
- Allow for intra-day gas price changes in calculating the gas price floor.

Seattle generally believes the latest proposal offered by CAISO is a workable framework for hydro resources that will enable them to participate effectively and on an equal footing with other resources in the EIM. Seattle’s remaining comments and recommendations are limited, and include the following which are explained more detail in the body of these comments:

- Seattle reiterates our support for including multiple trading hubs in the DEB formula for all resources and explains why this is important and appropriate.
- Seattle supports the DEB multiplier of 140% for short-term resources as a workable compromise.
- Seattle recommends that stakeholders have the opportunity to update the market prices that inform the DEB multiplier, if market conditions and changes warrant an update. This ability should be included in the business practice manual.

Detailed Comments and Recommendations

Multiple Trading Hubs in the DEB Formula

Seattle continues to support CAISO's proposal to allow both short-term and long-term hydro storage resources to incorporate multiple trading hubs in the DEB formula, to the extent they can demonstrate transmission rights to multiple trading hubs.

Seattle understands that both the Department of Market Monitoring (DMM) and Market Surveillance Committee (MSC) have raised concerns with respect to this aspect of the hydro DEB proposal. Seattle understands DMM and the MSC's view to be that transmission value can be separated from resource sales and therefore the opportunity costs for transmission and bilateral sales can and should be separate and the DEB should only reflect lost sales opportunities, and only at the local trading hub. Seattle does not agree that this construct is applicable to the EIM and opportunity costs for hydro resources. Seattle believes the opportunity costs for hydro resources in EIM include both transmission rights and resource sales and the two are inextricably linked—sales opportunities rely on both water and transmission to occur and thus opportunity costs must incorporate the value of both. There may be some limited opportunities to resell transmission, but as long as a resource has firm transmission rights to a specific trading hub, it has also the opportunity to earn revenues on that energy equal to those hub prices, even if it may occasionally choose to re-sell the transmission independent from the generation. The rule, rather than the exception, is that generation and transmission are largely sold as bundled product for hydro resources external to the CAISO BAA. For these reasons Seattle believes it is appropriate to include the full opportunity costs associated with hydro generation by allowing for multiple trading hubs in the DEB formula for those resources that can demonstrate firm transmission rights to multiple trading hubs.

Seattle believes it is very important to accurately reflect the true opportunity costs of resources in the EIM for two key reasons: (1) if opportunity costs are not accurately reflected, the market could potentially suffer the impacts of less hydro resources participating and/or less market participants and; (2) price formation principles support accurate DEB development which cannot be accomplished if opportunity sales are not accurately reflected.

DEB Formula and Multiplier

CAISO's latest proposal is one DEB formula for all resources that allows for the max of three

different price floors: Local/short-term floor (resources with storage of up to one month would receive the 140% multiplier); geographic/long-term floor (resources with more than one month of storage would receive a 110% multiplier for months following month one) and the gas price floor (includes peaker heat rates multiplied by a gas price index and includes a multiplier of 110%). CAISO's analysis indicates that the proposed multipliers will result in efficient dispatch at a level of 95-99% for a hypothetical hydro resource with four hours of available storage on a given day. Resources with more storage would have an even higher level of efficient dispatch, while those with 2 hours of daily available storage would reach an efficient dispatch of 77%-93% as indicated in CAISO's analysis.

Seattle believes a 140% multiplier is a workable compromise since it would allow for 95-99% efficient dispatch for all but the most water-limited resources. While we would prefer a hydro DEB that would be workable for all resources, including those that are the most water-constrained, we understand the challenge of creating one DEB formula that will work for all hydro resources. We believe CAISO has landed on a reasonable outcome in this proposal.

Seattle also recommends that a process be established that would allow the multiplier to be updated, as needed. Since the multiplier is meant to serve as a proxy for variation in energy market prices, as market conditions change and evolve, it is possible that the multiplier inputs may need to be refreshed as well. Seattle recommends that the business practice manual specify that stakeholders may request a review of the multiplier inputs as warranted. Allowing the multiplier and DEB to evolve as markets do will ultimately enhance its durability.

Seattle appreciates the opportunity to provide comments. If you have any questions regarding these comments, please contact Lea Fisher at 206-386-4546.