



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. The workshop, stakeholder meeting presentations, and other information related to this initiative may be found on the initiative webpage at:

<http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=8DD12CEA-E8B7-4075-A069-1AD1702E4802>

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.

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.

WPTF continues to support a “monitor and see” approach. The analysis provided thus far by the CAISO is not sufficient to conclude that uncompetitive market conditions are enabling the exercise of market power. Specifically, uncompetitive market conditions must be predictable and persistent, and market participants must have timely information about those conditions in order to submit market bids to exert market power.

At this point, given the analysis to date, it still remains unclear to what extent there has been any exercise of market power. The Residual Supply Index (RSI) analysis performed by the CAISO provides some insight into the potential for uncompetitive conditions, but is silent on the extent to which those conditions have been exploited. The case studies that have been discussed point to the fact that during the “suspect” hours when the RSI flags

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an hour as being potentially uncompetitive, the high prices are accurately reflecting other market conditions such as tight supply and/or high gas prices.

RSI results are very sensitive to how the metric is constructed (i.e., the threshold number of pivotal suppliers specified) and is prone to false positives when supply conditions are tight in the market. This is especially problematic because it is of crucial importance that market prices be allowed to accurately and transparently reflect scarcity rather than being mitigated when market power is not present.

Even if the RSI results as provided by the CAISO are robust to the effect of these false positives, the RSI analysis indicates that market participants may have the ability to exert market power in fewer than 3% of hours. Implementing any change to the market optimization of course is an extensive and costly endeavor. WPTF recommends alternative measures to managing expected future conditions in which supply is tight such as forward contracting and changes to RA. Such measures are highly likely to be more transparent and less costly. Given this, and the grave concerns about mitigation distorting market prices during tight supply conditions, WPTF contends that it may not be worth cost to design and implement a mechanism at this point.

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.

No comment at this time.

3. Proposal to consider interactions with the energy imbalance market

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.

WPTF supports evaluating the interactions between the CAISO BAA and EIM BAAs.

Introducing differential treatment among economically linked Balancing Authority Areas (BAA) may result in market distortions. Therefore, WPTF supports the evaluation of the CAISO and EIM Balancing Authority Areas (BAA) together if the concept of being "import constrained" is to be used to determine whether the potential for market power exists.

WPTF asks that the CAISO detail how they anticipate accurately conducting the competitiveness test when EIM BAAs are part of the "import constrained" area. Of concern is the extent to which the CAISO has sufficient data and information on conditions within EIM BAAs. Substantially more visibility into individual EIM BAA supply and load conditions, outside of their participation in the EIM, will be required to determine whether there is a potential for exercise of market power.

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For example, will EIM BAAs be required to supply the CAISO with data on imports into their control areas from sources external to the EIM? WPTF expects that any mitigation design will need to contemplate a constraint going into the EIM BAAs that make up the larger constrained area. Without such a constraint, an entity could skirt the intent of the mitigation by using non-binding transfer constraints to access additional competitive energy from outside another EIM BAA and bring that energy into the CAISO BAA.

Similarly, will EIM BAAs supply data on demand being served by supply all within their control area when that information would otherwise not be visible to the CAISO? It would seem that such information would be necessary to determine whether and when the EIM BAA may have uncompetitive conditions.

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.

WPTF supports the idea of exploring other “flags” to use in concert with an RSI calculation. As discussed throughout this process, there are flaws with solely using an RSI test to indicate when to mitigate offers. Thus, WPTF appreciates the CAISO's recognition of these flaws with the RSI and is considering to also include other “flags” such as the CAISO BAA being, to some extent, import constrained. The Residual Supply Index (RSI) can lend insight into the potential for uncompetitive conditions, but does not measure the extent to which those conditions have been exploited. Uncompetitive market conditions cannot be exploited unless they are predictable and persistent. A market participant, having observed persistent uncompetitive conditions, can only exploit them if bidding structure and market timelines provide for such. So, even if the RSI test seems to point to uncompetitive conditions that does not mean that they have been exploited. Thus, WPTF agrees that if the CAISO moves forward with a system level market power mitigation design it absolutely needs to include other “flags” or “triggers.”

WPTF recommends further discussion and analysis of using a subset of binding interties as a flag to trigger the calculation of the RSI. This would help avoid some false positives when an individual intertie or a small group of interties is binding. Interties may bind because of forced outages/derates. However, such circumstances do not represent predictable or persistent conditions that would enable the exercise market power. Even a group of three interties may bind without cutting off access to competitive supply on other interties.

Lastly, if the CAISO proceeds with the use of RSI, WPTF strenuously recommends that import offers, possibly capped at the intertie limit, be included in the supply calculation. California is heavily dependent on imports, and thus excluding import supply in the set of resources used to meet demand will undoubtedly cause RSI to signal uncompetitive conditions more often than it should.

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

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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.

WPTF recommends a “monitor and see” approach and encourages the CAISO to promote forward contracting and to pursue changes to the RA market. As discussed above, CAISO’s analysis indicates a very limited potential for uncompetitive conditions during which market participants could potentially exercise market power. WPTF recommends that the CAISO continue to report out metrics, and to evaluate that supply picture holistically in view of retirements, new installed capacity, and technology mix.

Bilateral contracts can help ensure robust future supply, as can an RA structure that adequately incents supply availability. With these incentives in place, the likelihood of uncompetitive conditions is lessened, and supply resources can be provided with transparent and adequate price signals.

6. Additional comments

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

WPTF strongly advocates that the CAISO include an additional design principle for this initiative:

The mitigation mechanism should not degrade quality of price signals, most notably during tight supply conditions.

When system conditions are such that supply is tight, naturally suppliers will be critical to meeting demand. In such circumstances, prices should absolutely reflect the scarcity value of supply. However, these are the same circumstances in which RSI will trigger a determination of uncompetitiveness. The result is a false positive when supply conditions are tight in the market. WPTF underscores that market prices should not be automatically mitigated simply because energy is highly valued to serve load – such prices are simply the outcome of an efficient market.

If the CAISO determines it is necessary and cost-effective to move forward with implementing a mitigation mechanism, it needs to balance such a design with provisions that keep proper market price signals from being stifled. It is essential that the market be equipped with a pricing mechanism that ensures prices rise as supply conditions tighten even in hours when mitigation is being applied. This is essential to ensuring the integrity of the market.

Thank you for the opportunity to provide these comments.