



System Market Power

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July 2019

About Western Power Trading Forum

- Western Power Trading Forum is a non-profit, trade forum dedicated to competitive markets and transparency at the California ISO and across the West
- CAISO Committee- paid monthly service for WPTF members that covers CAISO policy and important happenings
- *This presentation does not necessarily represent WPTF members' views*

About Gridwell Consulting

- Gridwell is a boutique consulting firm located in Sacramento, CA
 - All things CAISO – transmission, interconnection, settlements, and energy markets
 - Resource adequacy in CA and west

Overview

1. Residual Supplier Index (RSI) results are not a conclusive indicator of market power
2. There is no evidence that conditions needed to exert market power exist
3. Scarcity pricing is critical in a well-functioning market
4. A monitoring approach is best suited to current market power conditions

Residual Supply Index (RSI) is a screen, not a conclusive indicator

- RSI results are a first level assessment to identify potentially uncompetitive conditions, not a test that market power has been exercised
 - Scarcity conditions result in false positive RSI results
 - Prices under scarcity conditions do not mean that market power has been exercised
- Using an RSI 3 is somewhat arbitrary
 - How much more compelling is an RSI with 4 or 2 pivotal suppliers?
 - This directly impacts identification of uncompetitive hours
- Carefully consider what conclusions are made from RSI results

Conditions necessary to exert market power have not been shown to exist

- Ability for a market participant to exercise market power requires uncompetitive conditions to be:
 - ❑ **Predictable and persistent** – conditions occur during same time of day/month/season
 - ❑ **Timely** – must have sufficient time to identify forthcoming uncompetitive conditions and submit bids to the market for those hours
- These conditions have not been evaluated

Scarcity signals are part of a well-functioning market

- Markets that enable pricing to signal scarcity should not then be equated to abuses of market power
- Prices should increase during tight supply conditions to incent efficient actions, investment, etc.
- Allowing scarcity is extremely important when it comes to attracting imports

Recommendation: take a “monitor and see” approach

- Report out RSI and sensitivities routinely
 - Add additional predictability and persistence metrics
 - Evaluate whether RSI failed hours are due to scarcity or supplier concentration
 - Evaluate bidding behavior during suspect hours
- ISO should focus on other market changes that improve competition and efficient pricing
 - Address price formation concerns
 - Focus on flexible ramping products