



Stakeholder Comments Template

System Market Power Mitigation

Submitted by	Organization	Date Submitted
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Bonneville Power Administration¹ appreciates this opportunity to comment on CAISO’s System Market Power Mitigation Straw Proposal. Bonneville believes it is essential that price formation is well structured, which requires the right market incentives to make available appropriate amounts and types of supply to the day-ahead and real-time markets. This will help reduce the potential for suppliers to exercise market power at the CAISO BAA-level at all times. Bonneville is particularly encouraged by the phased approach in which the CAISO is proposing to pursue system market power only in the real-time and only in the CAISO BAA at this time.

1. Background and scope

Please provide your organization’s feedback on background and scope of this initiative, as described within the straw proposal. Please explain your rationale and include examples if applicable.

It is essential, for both the short and long-term efficiency of the any market, that price formation be well-structured and provide appropriate incentives to both buyers and sellers. The CAISO has undertaken a number of initiatives to improve the efficiency and competitiveness of their markets. Bonneville believes that efforts to change and enhance the structure of the real-time (RT), day-ahead (DA) and Resource Adequacy (RA) markets are necessary and substantive improvements.² At this point in time Bonneville has not seen the CAISO provide demonstrated evidence of the exertion of system market power. While we recognize that the existence of a

¹ Bonneville is a federal power marketing administration within the U.S. Department of Energy that markets electric power from 31 federal hydroelectric projects and some non-federal projects in the Pacific Northwest with a nameplate capacity of 22,500 MW. Bonneville currently supplies 30 percent of the power consumed in the Northwest. Bonneville also operates 15,000 miles of high voltage transmission that interconnects most of the other transmission systems in the Northwest with Canada and California. Bonneville is obligated by statute to serve Northwest municipalities, public utility districts, cooperatives and then other regional entities prior to selling power out of the region.

² The real-time market improvements are coming through the Flexible Ramping Product Enhancements policy initiative by attempting to limit awards to constrained supply. The day-ahead enhancements are coming through the Day-Ahead Market Enhancements policy initiative by creating new products that increase and improve the unit commitment instructions. The resource adequacy enhancements are coming through the Resource Adequacy Enhancements policy initiative by enhancing the ability of the CAISO to ensure a more effective procurement of capacity and improve reliability across all hours. The confluence of all of these initiatives should me to make a larger and more effective supply stack available to the CAISO, which all things being equal should reduce the potential for exercising system market power.

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systematic problem of suppliers exerting system market power is a serious matter, we feel that without evidence of such an issue, the CAISO's time is better spent prioritizing the many existing stakeholder process. These ongoing processes address serious and persistent issues with price formation and the resulting inefficient use of capabilities from supply that was and was not made available to the market.

Bonneville acknowledges the importance of examining the data to determine that there is not a persistent and present exertion of system market power. However, once the data has demonstrated that such an issue does not exist, to continue addressing the issue for fear of a future possibility of system market power, fails to appropriately prioritize price formation problems impacting participants both inside and outside of the CAISO BA.

We support WPTF's position of advocating for a "wait and see" approach. The data and information presented in the previous stakeholder processes and straw proposals have not suggested that this is an issue warranting the current proposed solution. Any small benefits gained from designing and implementing a system market power mitigation (SMPM) test would be offset by the potential harm of mitigating competitive bids and disincentivizing suppliers from participating in the CAISO market. This potential harm is in addition to the genuine downside/harm of not focusing on the real and pertinent issues impacting price formation within the CAISO DAM and capacity markets.

2. Phased approach

Please provide your organization's specific feedback on the proposed phased approach, as described within the straw proposal. Please explain your rationale and include examples if applicable.

If the CAISO intends to move forward with this initiatives, then Bonneville supports a phased approach. Given the added layers of complication that come with introducing a mitigation process to the DAM, we agree that a phased approach is more likely to be successful and engender less risk than a simultaneous process. This especially true given current CAISO proposals regarding DAME and EDAM. Thus if the CAISO moves forward with SMPM, any design for the RTM must be done such that it will be able to integrate smoothly with the DAM and any changes realized through CAISO processes.

3. Applying import-constrained trigger

Please provide your organization's specific feedback on reasonable ways to identify when the CAISO should consider itself import-constrained. Please explain your rationale and include examples if applicable.

Bonneville is concerned that the three interties discussed in the proposal only account for 60% of the total imported energy. This proportion may not result in a precondition that is stringent enough to perform its stated goal of preventing an "unreasonable number of intervals when there is in fact no potential for the exercise of market power." Therefore, Bonneville seeks to better understand how this import constraint would be applied in the CAISO's proposal.

4. Pivotal Supplier Test

Please provide your organization's feedback on the proposal to apply the Pivotal Supplier Test, as described within the straw proposal. Please explain your rationale and include examples if applicable.

Bonneville recognizes that many other counterparties have raised the merits associated with evaluating alternatives to the Pivotal Supplier Test, such as the conduct and impact test. We believe that further analysis and consideration of alternatives is both welcomed and warranted. Bonneville also believes that consideration of a wider array of SMPM test will generate greater support for the ultimately selected methodology.

5. Applying mitigation to internal supply offers

Please provide your organization's feedback on the proposal to mitigate supply offers within the CAISO balancing authority, as described within the straw proposal. Please explain your rationale and include examples if applicable.

Bonneville does not wish to comment at this time.

6. Determining competitive LMP

Please provide your organization's feedback on the proposal to determine the competitive Locational Marginal Price (LMP) when the CAISO mitigates its balancing area, as described within the straw proposal. Please explain your rationale and include examples if applicable.

Bonneville supports further analysis and discussion regarding mitigation and competitive LMPs, particularly any adverse impacts to the EIM. We feel that the current proposal to the competitive LMP would greatly benefit from a more thorough analysis.

7. Additional comments

Please offer any other feedback your organization would like to provide from the straw proposal and topics discussed during the web meeting.

Bonneville observes that the third principle may not be strong enough to achieve the full measure of impact that the CAISO may be seeking. This principle states:

“The mitigation design should not deter robust market participation and long-term forward contracting. The design should *maintain strong* incentives for suppliers and consumers to economically participate in the CAISO’s market and to *enter into* long-term forward energy contracts.”³ (Bonneville’s *emphasis* added.)

Bonneville encourages the CAISO to consider changing “maintain strong” to “further enhance”. Given the likelihood of increasing prospects for the potential to exercise system market power in the future, as observed by several stakeholders, and the operational risks described by CAISO in other policy initiatives, Bonneville believes “maintain” may understate the urgency that the CAISO is already employing to address identified shortcomings. Furthermore, “enter into” may not be sufficiently clear in that the CAISO’s interest is less that the contract is executed and more that the market operator can clearly demonstrate that those volumes are consistently and reliability made available to it. Therefore, Bonneville suggests adding a third phrase in the second sentence to say “which are then consistently and reliably made available to the CAISO.”

Bonneville therefore suggests changing the third principle to more accurately align with the CAISO’s values. Bonneville encourages the CAISO to adopt these suggested changes such that the third principle would state:

“The mitigation design should not deter robust market participation and long-term forward contracting. The design should further enhance incentives for suppliers and consumers to economically participate in the CAISO’s market and to enter into long-term forward energy contracts which are then consistently and reliably made available to the CAISO.”

³ System Market Power Mitigation Straw Proposal, page 8.