



Stakeholder Comments Template

System Market Power Mitigation

This template has been created for submission of stakeholder comments on the Straw Proposal for the System Market Power Mitigation. The paper, stakeholder meeting presentation, and all information related to this initiative is located on the [initiative webpage](#).

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business **January 10, 2019**.

Submitted by	Organization	Date Submitted
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Please provide your organization's general comments on the following issues and answers to specific requests.

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.

Calpine understands that both the DMM and CAISO have discovered conditions in which supply market concentration was present in 2018. The results of the analyses show that in tens or a few hundred hours per year the residual supply index (RSI), a test of structural competition, could fall below 1.0 suggesting that suppliers could exercise undue market power. Calpine agrees with the CAISO conclusions that OTC capacity retirement and limited replacement could exacerbate and/or extend the tight supply conditions experienced in 2018.

However, further analysis of the 2018 data by the MSC found that "market power has not been exploited frequently or aggressively" and that virtually all of the instances of price-cost mark-ups were during hours when natural gas prices were exceedingly high and cost-volatility might be explained by the risk-adjusted bids.

Calpine agrees that if there is evidence that suppliers are abusing, or could abuse market power, that is -- *profitably maintaining prices above competitive levels for a sustained amount of time*¹ -- that market power mitigation is appropriate.

¹ A definition generally used by antitrust agencies.

The CAISO appears poised to expeditiously implement a system market power mitigation (SMPM) mechanism in direct response to the findings that in up to 5 percent of hours, a structural test shows the possibility that suppliers could exert and abuse that which the CAISO alleges is market power. We urge caution and reflection.

First, as part of this initiative, the CAISO should define what they assert is an abuse of market power. The CAISO implicitly suggests that market power is abused whenever the bids of a supplier are above that which the CAISO believes is the true cost. In fact, the CAISO proposes that based on the failure of the structural test alone – and without any analysis of the impact those bids might have on consumers broadly -- that all internal supply bids in the entire CAISO market be replaced with the lower of the submitted bid or CAISO's calculation of cost.

In one sense, the CAISO seeks “perfect” competition – where prices always clear at the CAISO's estimate of the marginal cost of the last unit dispatched. Other organized markets realize the benefits of price signals during scarce conditions and allow an analysis not only of the conduct of bidders, but also the impact (if any) of submitted bids. In essence the other RTOs seek “workable” competition and in doing so they balance the need for mitigation with the benefits of sending appropriate price signals.

In fact, while the MSC opinion of November 5 supports mitigation, the document is hardly a full-throated endorsement of the CAISO's proposal. The MSC identifies many shortcomings of a test that is only structural in nature (as the CAISO proposes) and refers to it as a “blunt and conservative test”. Calpine agrees with the repeated observations of the MSC that an Eastern-style “conduct and impact” test would be superior.

Finally, the proposed structural test alone, could have detrimental pricing and market impacts that must be considered and weighed before implementation. Specifically, the implementation of a “blunt” instrument would result in false-positive determinations of market power. The resultant over-mitigation would have deleterious effects such as:

- Decreasing incentives to forward contract,
- Encouraging volumes to flow through the RT mitigated market where prices are capped (think 2000/1),
- Affecting prices in both DA and forward markets,
- Reducing incentives for demand-side solutions
- Requiring suppliers to bid (and possibly accept prices) below their costs,
- Creating discontinuous pricing – where in times of significant tightness, prices jump from the CAISO calculation of marginal cost up to parameter prices, and
- Possibly the most significant effect discouraging import energy deliveries when they are needed most – when scarcity in west-wide markets presents much higher opportunity elsewhere.

In sum, Calpine recommends that the CAISO move cautiously to implement a system market power mitigation mechanism that balances the need for price signals with the need to monitor behavior and mitigate when appropriate. These mitigation triggers should be based on a broad review of consumer benefits, not just a “blunt and conservative” structural test. We believe this can be accomplished with the addition of an impact screen to the proposed structural test.

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.

Calpine supports initial application of SMPM to the real-time market. Several complexities, such as the treatment of virtual supply and demand bids are eliminated when focused on real time. In addition, in real-time, the CAISO is running the market based on its own forecast of demand and has the assurance that all resources and demands are represented accurately.

Calpine also identifies the obvious, that the DA market – as evidenced by the multitude of stakeholder initiatives focused on it -- is likely to change substantially. The CAISO would have to wrestle with complicated matters to design the SMPM mechanism under the current design, and may very well have to revisit it in the changes that could include RAE, DAME and EDAM modifications.

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.

Calpine appreciates the CAISO's conclusion that there cannot be system market power if imports can still freely flow into the CAISO BAA. The presence of significant import constraints should and must precede any structural test of market power.

The CAISO proposes that it will deem the BAA import-constrained if three of the several major interties are full. Calpine thinks this is a good start. However, even when these three ties -- represent 60 percent of the import capability -- are full, there are thousands of MW of import capability unmonitored. In fact, interties like Mead, Marketplace and others could flow competitive energy into the CAISO increasing supply and naturally suppressing the ability of any supplier to exercise market power. As an alternative, the CAISO could establish a rule that *in addition to* the three ties being full, 90 percent of all of the simultaneous import capability (possibly as established by MIC analysis) must be flowing.

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.

Calpine does not object to a Pivotal Supplier test, but believes strongly that this "blunt instrument" is a necessary but not sufficient condition to trigger mitigation.

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.

Calpine supports mitigation of bids for resources that possess and/or exercise an unacceptable level of market power within a defined electrical area. In that regard, we query whether "system" market power can be defined more granularly than the entire BAA. That is, do transmission limits within the CAISO BAA affect the deliverability of energy on a system basis? For instance, are there quantitative methods that can be developed to target uncompetitive conditions in subareas of the CAISO grid that could encompass both system and some local areas (like NP or SP)?

Of course, the benefit of a conduct and impact test is that while it can be broadly implemented, it mitigates those what are exercising market power rather than the blunt and ubiquitous mechanism proposed by the CAISO.

Finally, in conjunction with implementation of a SMPM, the CAISO should redouble their efforts to improve scarcity pricing mechanisms. It should reconsider:

- Increased adders and reduced triggers for Frequently Mitigated Units.
- Relaxation of limits on the units that can set LMP (e.g., peaker pricing)
- Elimination of the load-conformance limiter
- Establish new penalty parameters for certain out-of-market actions by operators
- Graduated parameter prices as the BAA approaches power balance and transmission relaxation violations.

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.

No comment.

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.

Thanks.