



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.

MRP appreciates that the CAISO recognizes that an aggressive application of system market power mitigation could deter both supply and demand from participating in the CAISO's markets¹ and is taking a measured approach to the design and development of a system market power mitigation scheme. While the CAISO's analysis projects that its markets may have been structurally uncompetitive for some non-trivial number of hours in recent years (the number of uncompetitive hours varies significantly based on the number of pivotal suppliers used), the CAISO also reports that there is no evidence that market power was being exercised in similar number of hours. This reality also supports the CAISO's measured approach to this issue.

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.

¹ December 11, 2019 *System Market Power Mitigation Straw Proposal* ("Straw Proposal") at pages 14-15.

MRP supports the CAISO’s proposed approach of applying system market power mitigation initially only to the real-time market runs – the short-term unit commitment (“STUC”), hour-ahead scheduling process (“HASP”), real-time pre-dispatch (“RTPD”), Fifteen-Minute Market (“FMM”) and five-minute Real-Time market (“RTM”) processes. The CAISO’s proposal reflects the CAISO’s measured approach to this issue and the likelihood that an over-reaction would likely harm more than help.

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.

MRP is concerned about the CAISO’s proposal to deem the CAISO Balancing Authority Area (“BAA”) to be “import-constrained” if the Palo Verde (“PV”), Nevada-Oregon Border (“NOB”) and California-Oregon Boarder (“COB”) import paths are simultaneously constrained. While the CAISO report that the PV, NOB and COB paths were simultaneously constrained for only one 15-minute interval in 2018, the CAISO also reported that only 60% of import offers were associated with these paths, as shown in Figure 3 taken from page 24 of the Straw Proposal below:

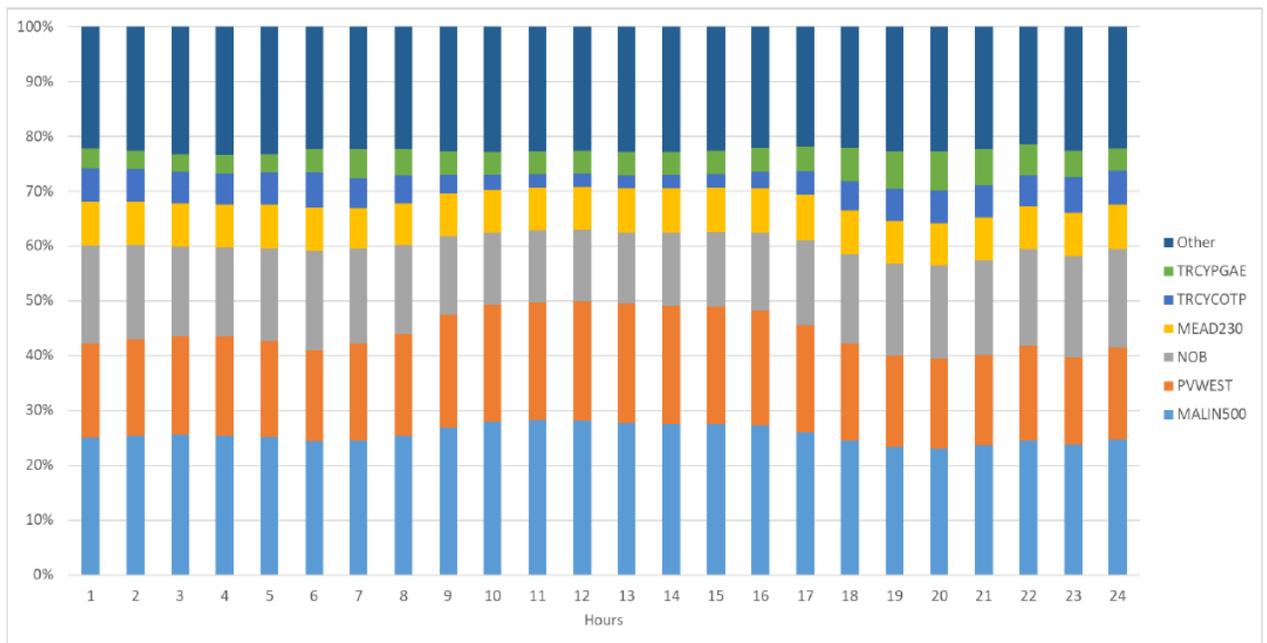


Figure 3: Percent of Total Hourly Import Offers per Intertie in 2018

While the majority of 2018 import offers were associated with these paths, that majority still comprises only 60% of all import offers. While, based on the 2018 experience, it seems likely that these three paths would be simultaneously constrained only in a very few real-time intervals, a significant amount of import capability is not associated with these three paths, and deeming the CAISO to be import-constrained when these three paths are simultaneously constrained would be an overly conservative approach. If the CAISO is

going to consider its entire BAA to be “import constrained” when only a subset of import paths are simultaneously constrained, the CAISO should consider a subset of paths that reflects a much higher percentage of import offers than the modest 60% captured in the three proposed paths.

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.

The CAISO is proposing to use the Three Pivotal Supplier (“3PS”) test (i.e., removing the supply associated with the three largest pivotal suppliers and assessing whether the residual supply can meet demand) to determine whether to apply mitigation.

As the CAISO’s analysis shows, the 3PS test is a very stringent test. The CAISO’s May 6, 2019 revised Analysis of Structural System-Level Competitiveness in the CAISO Balancing Authority Area shows that supply conditions are potentially non-competitive in 567 hours using the 3PS test but only 37 hours using a single pivotal supplier test.² While limiting the application of mitigation to only the hours in which the CAISO is import constrained should help reduce the possibility of over-mitigation (assuming the CAISO adopts an appropriate definition of when it is truly “import constrained”), the use of the very stringent 3PS test remains a concern.

Further, in applying the 3PS test, the CAISO should not consider the supply of net buyers as potentially pivotal.

Finally, MRP agrees with the Market Surveillance Committee observation that the CAISO should consider the use of a conduct and impact style assessment.³ This would help avoid the significant potential for over-mitigation that would result from using a three pivotal supplier test.

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.

In the Straw Proposal, the CAISO offered that the supply portfolio outside the CAISO should be presumed to be competitive, that mitigating import supply offers could be inappropriate and ineffective, and it would be FERC’s, not the CAISO’s purview to assess

² For the figures cited, demand consisted of the real-time forecast plus self-scheduled exports while supply consisted of output physical bids less the supply of net buyers. See April 29, 2019 *Analysis of Structural System-Level Competitiveness in the CAISO Balancing Authority Area* at pages 23-24. This analysis is available at <http://www.caiso.com/Documents/SystemMarketPowerAnalysis-May6-2019.pdf>.

³ See Straw Proposal at page 27; Market Surveillance Committee November 5, 2019 *Opinion on System Market Power Mitigation* at pages 9-13.

whether supply outside the CAISO was uncompetitive.⁴ As a result, the CAISO has proposed to mitigate only supply offers internal to the CAISO, though the CAISO has proposed to mitigate all internal supply offers, not just offers from suppliers deemed to be pivotal, even though the CAISO acknowledges that fringe suppliers do not have incentives to economically withhold supply.⁵ The CAISO acknowledges that this approach (to mitigate all supply offers, not just those from pivotal suppliers) is conservative and offers to consider modifying this design in a later phase of this initiative.⁶

In MRP's view, the CAISO's proposed approach to mitigating all internal supply offers is very conservative. The CAISO's proposal to not mitigate external supply offers is reasonable, but the CAISO should ensure that such unmitigated offers still can set the market clearing price and are not simply dispatched through exceptional dispatch to avoid that outcome. MRP encourages the CAISO to begin considering mitigating the offers of only potentially pivotal suppliers as soon as possible.

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.

The CAISO's ability to determine a competitive LMP is closely tied to the CAISO's ability to determine an appropriate Default Energy Bid (DEB). Additionally, the CAISO's ability to determine an appropriate DEB is closely tied to the CAISO's ability to dynamically know a supplier's fuel cost. MRP is concerned that the CAISO does not yet have in place the systems and processes to understand a supplier's true fuel cost. As a result, the CAISO's ability to fashion appropriate DEBs is suspect, and, consequently, the CAISO's ability to determine an appropriate competitive LMP is suspect. MRP urges the CAISO to adopt the processes necessary to reflect a supplier's true fuel cost in its market optimization as soon as possible.

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.

⁴ Straw Proposal at pages 30-31.

⁵ Straw Proposal at page 32.

⁶ *Id.*