

**Comments of the National Hydropower Association on
Local Market Power Mitigation Enhancements
Draft Final Proposal**

Submitted by	Company	Date Submitted
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The National Hydropower Association appreciates this opportunity to comment on the CAISO’s refinements to its Local Market Power Mitigation Enhancements Draft Final Proposal, issued on January 16, 2019. As the trade association for the hydropower industry, we monitor state proposals that may affect the efficient and economic dispatch of all hydropower resources. We would like to thank the CAISO for thoughtfully considering the input of hydropower owners and operators over the past several months. In our view, the Draft Final Proposal achieves a reasonable accommodation of hydropower opportunity costs.

NHA represents more than 240 companies, from Fortune 500 corporations to family-owned small businesses. Our diverse membership includes public and investor-owned utilities, independent power producers, developers, equipment manufacturers and other service providers. As a national association, we have members across the country, including California and its neighboring states in the Southwest and Pacific Northwest. NHA appreciates the modifications to the hydropower default energy bid option, which was updated in response to stakeholder feedback. We believe it more reasonably provides flexibility, certainty and transparency for hydropower resources participating in the Western energy imbalance market.

In its list of Principles, the Draft Final Proposal includes a revised bullet asserting: “The marginal costs used to calculate default energy bids for hydro resources should include opportunity costs for future market sales and for sales at other geographic regions.”¹ NHA strongly supports this principle. NHA also agrees with the CAISO’s acknowledgment that default energy bids “lower than opportunity costs” could have negative impacts on energy offerings and reduce overall market efficiency.² NHA supports market policies that encourage the optimal dispatch of hydropower by real-time market participants.

The CAISO’s proposed default energy bid option better captures opportunity costs for hydropower “to sell energy in markets outside of the CAISO and to generate replacement energy from a peaking resource.”³ It also affirms that hydropower operators may need to “prioritize managing local water conditions.” The updated default energy bid calculation reflects 1) maximum storage horizon (customizable); 2) ability to sell energy at different locations inside and outside their balancing area (potentially five different bilateral energy-trading hubs); 3) opportunity cost of generation by substituting local gas resources (includes average peaking heat

¹ Local Market Power Mitigation Enhancements. Draft Final Proposal. January 16, 2019. Page 19.

² Ibid, page 32.

³ Ibid, page 32.

rate); 4) and potential short-term limitations (provides a 1.4 multiplier to reduce inefficient dispatch). Overall, NHA believes that the proposed approach is a reasonable approximation of hydropower resources' opportunity costs.

While it remains possible that default energy bids may be insufficient for some energy limited resources, NHA is encouraged that the Draft Final Proposal provides an adequate solution for most of hydropower resources in the region.

Conclusion

The Draft Final Proposal has taken important steps to facilitate the participation of a wide variety of hydropower resources in the energy imbalance markets. It recognizes the operational limitations of hydropower and demonstrates an appreciation for the complexity in calculating hydropower opportunity costs. We are hopeful that the Draft Final Proposal will be a workable approach that attracts hydropower resource participation. Therefore, we urge the EIM Governing Body and ISO Board of Governors to approve the Draft Final Proposal in its current form.