



Local Market Power Mitigation Enhancements Draft Final Proposal

**Public Generating Pool Comments
February 8, 2019**

The Public Generating Pool (PGP) appreciates the opportunity to comment on the California ISO's Local Market Power Mitigation Enhancements Draft Final Proposal that was published on January 16, 2019 and discussed with stakeholders on January 23, 2019. PGP represents ten consumer-owned utilities in Oregon and Washington that own almost 6,000 MW of generation, 4,500 MW of which is hydro and 95% of which is carbon-free. Three of the PGP members operate their own Balancing Authority Area (BAA), while the remaining members have service territories within the Bonneville Power Administration's (BPA) BAA. Nine PGP members purchase 37 percent of the preference power sold by BPA.

I. GENERAL COMMENTS

PGP has great interest in the final outcome of this initiative as market power mitigation remains an issue of critical importance for PGP members. Some PGP members continue to evaluate market power mitigation in relation to their own potential participation in the EIM, while others are heavily involved in and impacted by the bearing market power mitigation may have on BPA's potential EIM participation. The risk to BPA and PGP members with hydro resources of being dispatched inefficiently due to market power mitigation has a direct impact on the cost/benefit analysis run by these entities in their EIM evaluation. If the probability of being dispatched inefficiently is too high, these entities will have to mitigate their risk, likely by not participating with their hydro resources during certain days, weeks, months or seasons. Presumably, the reduced participation would result in fewer benefits and when considered as part of the cost/benefit analysis, the outcome may lead to insufficient benefits to make a compelling case for these entities to join the EIM in the first place.

With that said, PGP is pleased to see the draft final proposal incorporate the majority of the key elements that were important for PGP members and other Pacific Northwest hydro owners and is supportive of the draft final proposal. PGP's specific comments on the draft final proposal below are limited to the proposed new default energy bid (DEB) for hydro resources and EIM decisional classification.

II. HYDRO RESOURCE DEFAULT ENERGY BID

PGP once again thanks CAISO staff for its responsiveness to stakeholder input in the improvements made to the new hydro DEB option in the draft final proposal. Hydropower and its clean, flexible attributes provide important benefits to the EIM and would ideally never be dispatched inefficiently. And while the formula proposed for the hydro default energy bid

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cannot accurately capture a hydro owner's opportunity costs every hour of the year, PGP believes it provides adequate margin to ensure the risk of hydro resources being dispatched inefficiently is minimized.

As the draft final proposal moves forward for decision and implementation, PGP would like to reiterate the importance of **all** of the elements of the hydro DEB formula. Inclusion of short-term and long-term limitations faced by hydro resources, the opportunity cost of substituting generation with local gas resources and the ability to sell energy to different locations are all essential considerations in calculating a hydro owner's opportunity costs. Including the maximum of the gas floor, local floor and geographical floor provides an adequate DEB value that ensures minimal inefficient dispatch, as confirmed by CAISO's analysis. Absent any one of these elements, a hydro owner's opportunity costs would be underrepresented, and hydro resources would be put at risk of being inefficiently dispatched too often. This could lead to the same undesirable results that are occurring today in the EIM – economic and potential operational harm to sellers of hydro resources and to the market from inefficient dispatch, hydro owners deciding to not participate in the EIM because of the risk of inefficient dispatch, etc. As such, PGP supports the hydro DEB option as proposed in the Draft Final Proposal.

The Department of Market Monitoring and the Market Surveillance Committee raised concerns regarding how firm transmission is valued and whether prices from distant markets should be factored into the hydro DEB formula. PGP strongly supports CAISO's response to these concerns in the Updated Draft Final Proposal. For hydro resources external to the CAISO BAA, generation and transmission are sold largely as a bundled product. Generators must purchase transmission rights to a bilateral trading hub in order to sell energy to that hub. While there may be some opportunity to resell the transmission, the opportunity is negligible. Additionally, as stated by the CAISO, hydro power is not fungible with generic power purchased because of the difference in GHG attributes. And the price exposure a hydro owner would experience in purchasing a multi-hour block of energy to fulfill a sale of hydro power for specific hours would make the sale uneconomical. Without the inclusion of multiple trading hubs in the hydro DEB formula, the hydro DEB formula would lack a critical component in a hydro owner's calculation of its opportunity costs. This outcome would be unworkable for PGP and other Pacific Northwest hydro owners.

III. EIM DECISIONAL CLASSIFICATION

PGP understands that the current decisional classification criteria for policy changes limit the EIM Governing Body's primary authority to those changes that apply uniquely to the EIM. PGP also understands that changes to decisional classification are not within the scope of this initiative but rather are being addressed through the EIM Governance Review process. Nevertheless, PGP raises the issue below as a demonstration of a need for broader governance reform and hopes this governance concern, among others, can be addressed more effectively within the EIM Governance Review process.

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PGP was surprised by CAISO's response to stakeholder comments regarding the proposed EIM decisional classification of this initiative. This initiative would not have been undertaken and prioritized had it not been such a critical issue for those hydro owners either participating in or evaluating their participation in the EIM. Yet CAISO stated it believes the primary driver for this initiative is to improve the performance of the entire market. This statement seems to indicate that even if the EIM Governing Body's primary authority was expanded to include generally applicable rules of the real-time market if the primary driver is the EIM, as proposed in the EIM Governance Review Issue Paper and Straw Proposal, the elements of this initiative, in particular the proposed new DEB option for hydro resources, would still not be classified as within the primary authority of the EIM Governing Body. Which seems to suggest that the proposed incremental expansion of the EIM Governing Body's primary authority may not result in any meaningful difference in practice. This outcome greatly highlights the need for a greater role for the EIM Governing Body on these issues along with clear delineation of authority between the EIM Governing Body and ISO Board of Governors that is not based on subjective opinions of the motivation behind policy and market design changes.

IV. CONCLUSION

PGP commends CAISO staff for their hard work in bringing the issues identified as part of this initiative to resolution in a manner that balances multiple stakeholder viewpoints and provides a feasible solution for participating hydro resources. PGP especially appreciates the analysis provided by CAISO staff that helped shape and provide sound rationale for variables in the hydro DEB option. PGP hopes to see the draft final proposal approved by the EIM Governing Body and ISO Board of Governors.

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