



System Market Power Mitigation

Submitted by	Organization	Date Submitted
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Summary of Recommendations:

- 1) **Pivotal Supplier Test Trigger:** PGP continues to believe the pivotal supplier test trigger should account for all import transmission capacity in determining whether the CAISO BAA is constrained, however, we support CAISO's revised proposal which includes additional pricing criteria triggers
- 2) **Pivotal Supply Test Design:** The PGP continues to support the structure of the proposed pivotal supply test
- 3) **Competitive LMP:** PGP supports CAISO's proposed calculation of the competitive LMP
- 4) **Applying Mitigation to Internal Supply Offers**
PGP strongly supports CAISO's proposal to mitigate supply offers only within the CAISO BAA and to not mitigate import bids.

General Comments:

PGP¹ appreciates the significant effort CAISO has taken to consider the various and divergent perspectives on the issue of developing a system-level market power mitigation framework in the CAISO BAA. PGP continues to believe that the need for a system-level market power mitigation framework has not been justified, however, we are supportive of the most recent changes CAISO proposes and believe the end result is a balanced proposal that would avoid unnecessary mitigation and the potential harms associated with this.

No mitigation framework will get mitigation correct for all offers, in all intervals, 100% of the time—and the design should not be expected to achieve this. However, we believe the draft final proposal is designed in such a way to appropriately limit system-level market power mitigation to

¹ PGP represents eleven consumer-owned utilities in Washington and Oregon that own almost 8,000 MW of generation, 97% of which is carbon free with approximately 7,000 MW of which is hydro. Four of the PGP members operate their own balancing authority areas (BAAs), while the remaining members have service territories within the Bonneville Power Administration (BPA) BAA. As a group, PGP members also purchase over 45% of BPA's preference power.



intervals when suppliers may realistically have the opportunity to exercise market power and when the price impact is material. It would also reduce the potential of mitigated offer prices falling below prevailing bilateral prices. PGP supports CAISO's draft final proposal and offers the following comments that detail our considerations and support for the draft final proposal.

Elements of the Proposal

Below are PGP's responses to the specific elements of the system market power mitigation revised straw proposal.

1. Pivotal Supplier Test Trigger

Please provide your organization's specific feedback on the ISO's Pivotal Supplier Test Trigger proposal, as described within the draft final proposal, which includes several criteria to only perform the three pivotal supplier test when there is a potential for system-level market power.

An import-constraint screen is an essential step in any market power mitigation process and is an important protection against over-mitigation. Without such a screen, the pivotal supplier test on its own would not account for potentially cost-effective import offers and would thereby potentially overstate the possibility of the exercise of market power.

PGP raised concerns with CAISO's last proposal which identified a constrained area based on import constraints in the EIM alone. PGP did not support this proposal because the EIM represents a very small percentage of the total import capacity into the CAISO BAA and ignoring transfer capability outside the EIM will not result in a truly binding constraint. In order to most accurately determine when the CAISO BAA is import-constrained, PGP believes that the pivotal supplier test trigger should first and foremost address when the CAISO BAA is transmission constrained, and this assessment should include all import transmission capacity. PGP believes it is also appropriate to identify other instances where CAISO may be cut off from external supply and apply these as triggers to the pivotal supplier test as well.

CAISO's draft final proposal continues to limit its assessment of whether the CAISO BAA is transmission constrained based on whether the CAISO has limited access to EIM transfers alone, however, it also layers on additional trigger criteria that are designed to identify other conditions that would indicate CAISO is cut off from external supply. The additional criteria CAISO proposes include the following: CAISO marginal energy prices must be greater than \$100/MWh; greater than the highest hourly shaped day-ahead bilateral



electrical trading hub index plus 10% and greater than a CAISO proxy cost calculation of a hypothetical gas-fired peaker based on current gas costs plus 10%.

PGP believes these pricing criteria will help ensure that the trigger for the three pivotal supplier test is limited to instance when conditions indicate there is a potential for system market power. The \$100 threshold is a reasonable trigger because the potential for market power most likely only exists when supply is tight and corresponding prices reflect this. The additional trigger criteria requirement that CAISO BAA prices must be higher than the highest day-ahead bilateral trading hub index, plus 10%, is also a rational marker for triggering the pivotal supplier test. As CAISO explains, if CAISO prices are higher than bilateral trading hub prices, this indicates the CAISO may be unable to access additional external supply and is therefore constrained. This may be due to inefficient external transmission to reach CAISO interties, because the CAISO interties are at their scheduling limit or because the market has exhausted available import bids.

Some stakeholders have suggested that it is not reasonable to compare CAISO prices to bilateral market trading hub prices to determine whether the CAISO is import-constrained because access to transmission outside of CAISO required to reach CAISO interties should not be assumed to be competitive. PGP disagrees with this argument—as CAISO and many other stakeholders have pointed out, the WECC should be assumed to be competitive. There is no information that suggests the WECC is uncompetitive, entities participating in the bilateral market do so under FERC’s market-based rate authority and it would be difficult and outside of CAISO’s purview to make any determination of the competitiveness of the Western bilateral markets.

PGP believes CAISO’s proposed pricing criteria, layered on to the requirement that the CAISO BAA marginal energy price is the highest marginal energy price in the EIM, strikes a reasonable balance in determining whether the CAISO is import-constrained. PGP appreciates CAISO providing on the last stakeholder call an estimate of how often the pivotal supplier test would trigger under this new proposal, which was suggested to be in the range of .5-1% of all market intervals. PGP respectfully requests that CAISO provide an analysis supporting this estimate and any additional analysis that is possible on how often mitigation would trigger under the new proposal.

2. Pivotal Supplier Test Design

Please provide your organization’s specific feedback on the ISO’s proposal to use the three pivotal supplier test to determine if pivotal suppliers in the ISO Balancing Authority Area (BAA) could exercise market power in the constrained region, as described within the draft final proposal.



PGP continues to support CAISO's proposal to only test supply with the CAISO BAA as pivotal supply in the three pivotal supplier test and adjust each suppliers' pivotal supply quantities to account for their load-serving obligations. This approach will more accurately identify total pivotal supply in the test and ensure that mitigation is only applied to offers from pivotal suppliers with an incentive to raise offer prices.

3. Determining competitive LMP

Please provide your organization's feedback on the proposal to calculate the competitive locational marginal price (LMP) when the ISO BAA fails the system-level market power mitigation test.

PGP raised concerns with CAISO's last proposal to determine the competitive LMP when the ISO mitigates bids for resources in its BAA. CAISO's last proposal looked to EIM prices to set the competitive LMP, however, the competitive LMP is meant to reflect the prevailing price for energy outside a constrained area and to minimize the risk of mitigating below competitive levels in other markets and discouraging participation. EIM prices are not a good marker for the prevailing price for energy outside the CAISO BAA constrained area because the EIM only represents a small percentage of the transfer capability into the CAISO BAA. PGP's most recent comments requested that the competitive LMP be set in a manner that more accurately reflects the prevailing price for energy outside the constrained area.

PGP supports CAISO's current proposal, which sets the competitive LMP as the max of the pricing criteria applied to the pivotal supplier test. We believe this approach will ensure the competitive LMP for system-level market power mitigation is at least as high as prevailing bilateral electrical prices in broader western interconnection and would minimize the risk that system-level market power mitigation depresses prices below those outside of the CAISO.

4. Applying mitigation to internal supply offers

Please provide your organization's feedback on the proposal to apply the Pivotal Supplier Test to mitigate pivotal supplier resource offers within the ISO's BAA when the pivotal supplier test fails.

PGP strongly supports CAISO's proposal to mitigate supply offers only within the CAISO BAA and to not mitigate import bids. Mitigating imports is not appropriate because imports originate from an unconstrained western interconnection that should be presumed to be competitive. Moreover, it is unreasonable to assume that all entities offering to sell power at CAISO's interties are pivotal to the entire western interconnection.



5. **Additional comments**

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

No additional comments.

