



## Stakeholder Comments Template

### System Market Power Mitigation

Submitted by	Organization	Date Submitted
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The Public Generating Pool (PGP<sup>1</sup>) appreciates the opportunity to comment on CAISO's System-Level Market Power Mitigation Revised Straw Proposal. PGP understands that CAISO's efforts to refine the proposal are an attempt to balance the feedback received from stakeholders, however, we believe the latest proposal is an inappropriate shift in direction that would result in adverse unintended consequences which we describe below.

#### Summary of Recommendations:

- 1) **Pivotal Supplier Test Trigger:** The pivotal supplier test trigger should be revised to account for all import transmission capacity.
- 2) **Pivotal Supply Test Design:** The structure of the proposed pivotal supply test appears reasonable but remains a limited tool.
- 3) **Competitive LMP:** The calculation of the competitive LMP should be revised to more accurately reflect the prevailing price for energy outside the constrained area.

#### General Comments:

##### The Need for a System-Level Market Power Mitigation Framework Is Not Justified

PGP continues to believe there is insufficient evidence indicating that market power has been exerted at the system level in the CAISO BAA to merit this initiative. DMM's 2019 analysis found that the supply mix was potentially uncompetitive in 272 hours in 2018<sup>2</sup> and CAISO found that

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<sup>1</sup> 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.

<sup>2</sup> CAISO DMM Q3 Report on Market Issues and Performance (December 5, 2019), at 106 "Analysis by DMM indicates that in the last few years system market power has had a limited effect on market prices even during the limited

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there were 200 hours (less than 3%) in 2018 when its supply mix was potentially uncompetitive as evidenced though the failure of the pivotal supplier test.<sup>3</sup> The Market Surveillance Committee also noted that the CAISO and DMM analyses indicate that little to no market power was exercised in most hours in which the three pivotal supplier test failed.<sup>4</sup> Moreover, it appears that many of the hours when the test has failed are during times of tight supply conditions in the market which suggests that these hours may be actually reflecting scarcity rather than uncompetitive conditions.<sup>5</sup>

### **The Revised Straw Proposal Is an Inappropriate Shift in Direction with Adverse Consequences**

PGP struggles to understand how the revised proposal achieves the guiding principles enumerated by CAISO for this initiative. In particular, we believe this proposal would violate CAISO's principle of ensuring a system-level market power mitigation framework maintains strong incentives for suppliers and consumers to economically participate in CAISO's markets. The revised proposal creates significant risk that CAISO market prices would be mitigated below the levels needed to compete for external supply when system conditions are tight. This broad and unnecessary application of system market power mitigation can inefficiently lower prices and harm sellers in regions that are often selling during the hours when system market power mitigation would be triggered and when the CAISO grid most needs supply.

## **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 proposal to perform the Pivotal Supplier Test when its Balancing Authority Area (BAA) is in the highest priced import-constrained region in the energy imbalance market.**

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number of hours when the ISO system was structurally uncompetitive. In 2019, market prices have continued to be relatively low and stable due to a combination of favorable market and system conditions."

<sup>3</sup> CAISO Analysis of Structural System-Level Competitiveness in the CAISO Balancing Authority Area (September 3, 2019) at 3.

<sup>4</sup> CAISO Market Surveillance Committee Opinion on System Market Power Mitigation (November 5, 2019), at 3 "We take from these analyses that pivotal supplier tests indicate that there might have been some limited potential for market power at the system level, but, according to analyses of prices and costs that have been carried out to date, this market power has not been exploited very frequently or aggressively."

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CAISO's proposed high-level framework for system market power mitigation design builds off of existing market power mitigation design elements and includes the following steps: (1) identify constraints/constrained areas (2) test structural competitiveness through a pivotal supplier test and (3) mitigate sources which could exercise market power on demand in the constrained area.

Step 1 is essential--without an import constraint screen, the pivotal supplier test on its own would not account for potentially cost-effective import offers and could thereby overstate the possibility of the exercise of market power. Hence the design of the import-constraint screen or "pivotal supplier test trigger" needs to accurately reflect when areas have real physical constraints that create the condition for potential limitations on supply into those areas.

CAISO's revised proposal uses energy imbalance market (EIM) prices to determine when to trigger the system-level market power mitigation process and to determine the geographic scope of that test. CAISO's rationale is that EIM prices should show if either or both economic import offers and EIM transfers are transmission constrained because EIM transfers and economic import offers compete for the same transmission capacity. In short, CAISO's proposal indicates that it is not necessary to consider when different import paths bind because EIM prices should be indicative of whether imports are constrained.

Where the proposal and its logic fail is the presumption that EIM transfers and economic import offers compete for the same transmission. EIM transfers are only a small percentage of total import supply and are artificially limited in transfer capability. For example, 15-minute and 5-minute EIM transfers from the Northwest into the CAISO BAA are limited to around 400-500 MW of COI transmission that was donated to the EIM, while the total transfer capability of the COI is approximately 4,800 MW. In considering just the COI, the EIM transfers are about 10% of the total transfer capability, which is not reflective of all external supply available to the CAISO and therefore cannot be used to determine whether the CAISO BAA is constrained. EIM transfers and economic import offers do not compete for the same transmission capacity and EIM prices do not reflect whether all imports outside the CAISO BAA are constrained.

CAISO's proposal would trigger the RSI test in the absence of a truly binding constraint, and this is concerning because it could lead to over-mitigation. Over-mitigation would inappropriately lower prices in real-time but would also have effects beyond the real-time market since the clearing price in the real-time market also affects the day-ahead market through price-convergence. In addition, fear of over-mitigation will likely lead to a lack of supply bids in CAISO's markets. Importers generally respond to expected prices – if prices are expected to be lower, then less supply will be offered in future hours, exacerbating CAISO's supply challenges.

PGP recognizes that the import constraint trigger is just the first step in a three-step mitigation framework process and in order for mitigation to occur, the pivotal supplier test would also need to fail. CAISO has performed a historical analysis that indicates the frequency with which the CAISO BAA would be import constrained under its current proposal but has not yet provided any data on how often the pivotal supplier test would fail over the same historical time. PGP requests

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CAISO provide this information to assist stakeholders in better understanding the impact of CAISO's proposal.

## 2. Pivotal Supplier Test Design

**Please provide your organization's specific feedback on the ISO's proposal to consider suppliers with resources within the CAISO BAA as potentially pivotal, treat economic import offers and offers from participating resources within the energy imbalance market as fringe supply, and account for net seller load-serving obligations.**

The pivotal supplier test should reflect the full import capacity available to reduce demand served by internal resources. CAISO's proposed changes to the pivotal supply quantity used in the residual supplier test appear to be a step in the right direction to develop a more accurate test that accounts for the full import capacity. Still, even with improvements, the three pivotal supplier test is a limited tool. For example, if the three pivotal supplier test only looks at submitted import offers, it will fail to recognize the potential import supply that could be delivered if expected prices supported sales to the CAISO BAA. And further, while the three pivotal supplier test can provide insight into the potential for uncompetitive conditions, it does not on its own provide any indication as to whether market power has been exerted.

## 3. Determining competitive LMP

**Please provide your organization's feedback on the proposal to determine the competitive Locational Marginal Price (LMP) when the ISO mitigates bids for resources located within its BAA.**

The competitive LMP is the prevailing price for energy outside the constrained area and is intended to minimize risk of mitigating below competitive levels in other markets and discouraging participation. CAISO's current proposal to use EIM offer prices in determining the competitive LMP is the wrong marker for the real-time value of supply beyond CAISO's borders. As discussed in the earlier section on the RSI test trigger, EIM prices are not reflective of constrained conditions and prices outside the EIM and CAISO BAA. The EIM is small – only 10% of the COI total transfer capability and ignores other market transactions that occur.

PGP suggests that CAISO consider setting the competitive LMP in a manner that more accurately reflects the prevailing price for energy outside the constrained area. One possible option could be to set the competitive LMP based on weighted day-ahead bilateral market hub prices and/or a gas-region proxy.

## 4. Applying mitigation to internal supply offers

**Please provide your organization's feedback on the proposal to mitigate pivotal supplier resource offers within the ISO's BAA.**

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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.

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