



Stakeholder Comments Template

System Market Power Mitigation

Submitted by	Organization	Date Submitted
<i>Lea Fisher</i>	<i>Public Generating Pool</i>	<i>January 10, 2020</i>

The Public Generating Pool (PGP¹) appreciates the opportunity to comment on CAISO's System-Level Market Power Mitigation Straw Proposal. PGP did not support commencing a policy initiative on system market power for the reasons discussed in our November 4, 2019 comments² on the CAISO System-Level Market Power Mitigation Initiative Scoping document. Our position on the need for this initiative has not changed, however, given the CAISO's decision to move forward with an initiative we offer the following comments in an effort to provide constructive feedback on the straw proposal design.

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.

PGP supports efforts that lead to efficient and equitable market outcomes for all market participants. For this reason, we support a careful review of system-level market power concerns and potential measures that may be required to address those concerns. However, we are concerned that CAISO appears to be prioritizing addressing system-level market power concerns over other price formation issues, despite the lack of evidence of market power being exerted at

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.

² See: <http://www.caiso.com/Documents/PGPComments-SystemMarketPowerMitigation-ScopingDocument.pdf>

CAISO

the system level in the CAISO BAA.³ PGP believes it is critically important that CAISO equitably address price formation concerns of entities both inside and outside the CAISO BAA.

Powerex, WPTF and others have raised concerns that CAISO's markets rarely reach scarcity conditions or trigger scarcity pricing, and this may be due to CAISO operators taking out of market actions that avoid triggering scarcity conditions and which prevent scarcity prices from being reached. This leads to inefficient market outcomes because market prices do not reflect the actual marginal cost of serving demand or the impact of scarcity conditions.

PGP continues to recommend that CAISO include in its market power mitigation design principles the concept that a mitigation mechanism should be designed to ensure proper market signals are not stifled and ensures pricing can rise as supply conditions tighten, even when mitigation is being applied. We suggest the following principle:

“Market prices should reflect the scarcity value of supply and any mitigation mechanism should not distort proper price signals.”

To this end, we encourage CAISO to include in the scope of this initiative exploring scarcity pricing enhancements or other price formation enhancements that may be necessary to ensure the scarcity value of supply is reflected in market prices and to ensure that any mitigation mechanism not distort proper price signals.

Additional comments on scope of this initiative are included in the responses to questions 2 and 5.

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.

PGP supports CAISO's proposal to use a phased approach for this initiative. CAISO proposes that Phase 1 would apply system-level market power mitigation only to the real-time market and Phase 2 would *consider* whether it is necessary to design and apply a system-level market power

³ CAISO's recent analysis of structural system-level competitiveness in the CAISO BAA found that there were just over 2% of the hours in 2018 where its supply mix was *potentially* uncompetitive. Given the lack of evidence of the potential for system-level market power, PGP believes it is appropriate to proceed cautiously in exploring and developing a system-level mitigation framework in order to ensure instances of unnecessary or inappropriate mitigation that could discourage supply and demand participation in its markets are avoided.

CAISO

mitigation for the day-ahead market and explore other changes to the market power mitigation tests in general.

Focusing on the real-time market first, before the day-ahead market, is appropriate because as CAISO has explained, the real-time market has characteristics that make it more susceptible to market power than the day-ahead market. In addition, CAISO has raised for consideration that if the economics of the interaction between the day-ahead and real-time markets work as presumed, it should not be entirely necessary to apply a system-wide market power mitigation to the day-ahead market. Finally, any potential day-ahead market system-level market mitigation design should only be explored in the context of other changes being considered in the day-ahead market in the on-going Day-Ahead Market Enhancements Initiative and the Extended Day-Ahead Market initiative. Exploring system-level market power mitigation in a later phase would allow the time to coordinate with these other day-ahead market initiatives.

Given the uncertainty regarding the necessity of applying system-level market power mitigation to the day-ahead market and the overall lack of evidence of system-level market power being exerted, PGP is not convinced it is necessary to apply system-level market power mitigation to the day-ahead market, but if it is explored it should be in Phase II for the reasons stated above.

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.

PGP supports CAISO's proposed approach to system-level market power mitigation design which builds off 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.

PGP believes it is appropriate to execute the pivotal supplier test only after it is determined that the CAISO BAA is import-constrained. An import-constraint screen 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. An import constraint screen is also appropriate because if the CAISO BAA is not import-constrained it is reasonable to assume it has access to competitive supply given that the broader western interconnection is likely to be competitive given its FERC-approved market-based rate authority and generally available external transmission rights that typically exceed CAISO's import capability.

CAISO proposes to consider itself import-constrained if Malin, NOB and Palo Verde, its major intertie paths, are simultaneously binding in an interval. PGP believes CAISO's proposed high-level constraint is reasonable as well as being simple and expedient to administer. The

alternative concept posed by CAISO, to compare import offer volumes at specific intertie locations to the intertie limits would appear to be of limited value because it would not be able to account for supply that may have been available but may not have been offered due to other opportunities, a lack of prices signals, etc. In other words, import offers/import limits on their own cannot definitively address whether there is a shortage of supply. Using import offers/limits alone to identify a constraint would also not pick up binding constraints caused by significant outages or derates on major intertie 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.

As discussed in response to question 3, PGP supports a system-level market power mitigation framework that builds off the existing market power mitigation design. We believe it is reasonable to apply a three pivotal supplier test and the formula should reflect the full import capacity available to reduce demand served by internal resources. CAISO’s proposed formula subtracts cleared net imports and cleared net EIM transfers (cleared in the market power mitigation pass) from the total CAISO balancing area demand. PGP agrees with other stakeholders that CAISO’s formula may need to be modified to more appropriately account for imports and EIM transfers. For example, it may be appropriate to consider including the full EIM transfer capacity (not just the amount that cleared in the market mitigation pass) and potentially the full physical capacity committed to the CAISO as resource-specific import RA resources.

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.

PGP strongly supports CAISO’s proposal to only mitigate supply offers within the CAISO balancing area and to not mitigate import bids. Mitigating imports is inappropriate because imports originate from an unconstrained western interconnection that should be presumed to be competitive. The western interconnection should be presumed to be competitive because there is no information available to suggest it is uncompetitive and it would be difficult and inappropriate for CAISO to make this determination. Moreover, it is unreasonable to assume that all entities offering to sell power at CAISO’s interties are pivotal to the entire western interconnection. As the Market Surveillance Committee has noted, entities that control amounts of generation outside the CAISO BAA have large load-serving obligations and so supply offered to the CAISO is likely “fringe supply” from suppliers that are not pivotal to the western interconnection.

CAISO

Mitigating import offers would also likely do more harm than good because inappropriate mitigation would likely be seen as an undue risk to suppliers who may choose to commit their resources elsewhere. As supply conditions tighten in western markets and CAISO relies to a greater extent on imports, it is all the more important to avoid deterring supply from participating in CAISO's markets as this will only exacerbate these conditions and the potential reliability concerns associated with them.

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.

CAISO proposes to mitigate EIM resource offers in a BA to the default energy bid when that balancing area fails its market power mitigation test and the CAISO BA also fails its market power mitigation test. The current EIM LMPM framework mitigates resources down to a resource's DEB or the CAISO competitive LMP, whichever is higher. However, under a system-market power mitigation framework, when the CAISO BA fails the market power mitigation test, there will no longer be a competitive LMP. In this instance, CAISO proposes that those EIM resources that would have been mitigated to the greater of the DEB or competitive LMP when subject to mitigation are simply mitigated down to the DEB.

PGP believes CAISO should explore additional alternatives to determining the competitive LMP in the EIM areas when the CAISO is import-constrained. PGP believes there may be merit to exploring a proxy competitive LMP for the remainder of the EIM when CAISO is import-constrained but the rest of the EIM (or much of it) is not.

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.

No other comments at this time.