

System Market Power Mitigation

Submitted by	Organization	Date Submitted
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Please provide your organization’s general comments on the following issues and answers to specific requests.

The Public Power Council (PPC) appreciates the opportunity to provide comments on the System Market Power Mitigation Draft Final Proposal from June 16, 2020. PPC represents the interests of most consumer-owned utilities located in the Pacific Northwest. PPC’s members range from small rural distribution utilities that do not own generation to very large urban utilities that own both generation and transmission facilities, but all PPC members are statutory preference customers of the Bonneville Power Administration (BPA). PPC’s members are interested in the potential development of this proposal from several perspectives: as purchasers of preference power or transmission services from BPA, as load serving entities in the current and/or future EIM footprint, and as possible and planned EIM participants themselves.

PPC supports CAISO’s revised System Market Power Mitigation Draft Final Proposal. The Draft Final Proposal is a sensible approach that protects against system market power while including features that safeguard against over-mitigation. The modifications to the pivotal supplier test trigger are essential to ensure that the system market power framework does not deter voluntary economic import offers. PPC appreciates CAISO staff’s thoughtful approach to exploring a system market power mitigation framework and responsiveness to stakeholder’s feedback on previous proposals.

1. Pivotal Supplier Test Trigger

The pivotal supplier test trigger is designed to identify the conditions in which CAISO is cut off from the broader competitive WECC, creating the potential for the exercise of market power at the system-level may exist. CAISO’s previous proposal assumed CAISO was import-constrained and cut off from WECC when an EIM transmission path into CAISO binds. PPC and other stakeholders submitted comments in response expressing concern that this test was inappropriate and would lead to over-mitigation because EIM transmission represents only a portion of the intertie transmission into CAISO.

While the updated Draft Final Proposal continues to assume CAISO is cut off from the broader WECC when EIM transmission binds, it adds three additional criteria that need to be met to move to the pivotal supplier test:

- 1) Price exceeds \$100/MWh
- 2) Price exceeds prevailing bilateral market hubs shaped hourly plus 10%
- 3) Price exceeds cost of a hypothetical gas peaker plus 10%.

These additional criteria are sensible additions to the pivotal supplier test trigger to help ensure CAISO does not over-mitigate supply resulting in the deterrence of voluntary economic import offers. PPC believes the tightening conditions in CAISO that have led to concerns regarding system-level market power will also have the effect of increasing CAISO's reliance on voluntary economic import offers. In this context, the additional criteria are well-reasoned additions that will identify the potential for system-market power and help ensure CAISO is not deterring import supply in the intervals it is needed the most.

The \$100/MWh price threshold is reasonable because it limits mitigation to the high price events reflecting tight conditions on the grid that are the impetus for this initiative. Without this additional criterion, the test trigger may provide false positives when an EIM path binds, but CAISO is not experiencing tight grid conditions. For example, this may occur when the PNW is exporting surplus hydro in the spring. The additional criterion that CAISO prices exceed adjacent bilateral hub prices is also reasonable because it will help identify when CAISO may be cutoff from external supply in WECC. If prices in CAISO significantly diverge from adjacent bilateral hubs it could indicate CAISO has limited access to those adjacent markets. This criterion will also help ensure CAISO does not mitigate bids when it is price-converged with a broader region and mitigation will be harmful to accessing supply from import offers. Finally, the additional criterion that prices exceed the cost of a hypothetical gas peaker with current gas prices will help ensure market power mitigation is not incorrectly applied when there are sudden gas price increases. Limiting mitigation to when a gas peaker is marginal is also an appropriate screen to ensure mitigation is occurring only when the CAISO grid is tight.

PPC supports the revision to the pivotal supplier test trigger and appreciates CAISO staff's thoughtful approach to this topic. PPC believes the designed test is a sensible approach to identify when the potential for system-level market power exists while limiting the potential for over-mitigation.

2. Pivotal Supplier Test Design

PPC supports the pivotal supplier test design that includes import offers and EIM participating resources in other balancing authority areas that are in a constrained region as non-pivotal supply. PPC also supports the proposed modification to the test design to account for load-serving obligations and intertie scheduling limits.

3. Determining competitive LMP

PPC strongly supports the modifications to competitive LMP calculation. In response to the previous proposal, PPC submitted comments expressing concern that determining the competitive LMP based on EIM prices did not reflect the broader competitive marketplace and could result in mitigation below competitive levels. The inclusion of the additional criteria as price floors for a competitive LMP will help ensure prices are not mitigated

below competitive prices. PPC appreciates CAISO's responsiveness to stakeholder concerns in this area.

4. Applying mitigation to internal supply offers

As described in previous comments, PPC strongly agrees with the proposal to only apply mitigation to internal supply offers of market participants that are pivotal. Mitigating import offers would be inappropriate and ineffective in eliminating the opportunity to exercise market power. CAISO staff has acknowledged that it may be appropriate to mitigate import offers if the broader WECC is uncompetitive and if the import suppliers are pivotal suppliers to WECC. However, to date, PPC has seen no evidence that the broader WECC is uncompetitive and that import suppliers are pivotal in setting prices in WECC. Even under circumstances of an uncompetitive WECC, mitigating import offers would lead to detrimental outcomes to load in the CAISO. Entities that make voluntary offers at CAISO interties may choose to sell into other western markets when they anticipate mitigation. This would raise energy prices in CAISO and exacerbate supplier concentration within CAISO.

5. Additional comments

PPC appreciates the opportunity to provide comments on the CAISO's System-Level Market Power Mitigation Draft Final Proposal.