



# System Market Power Mitigation

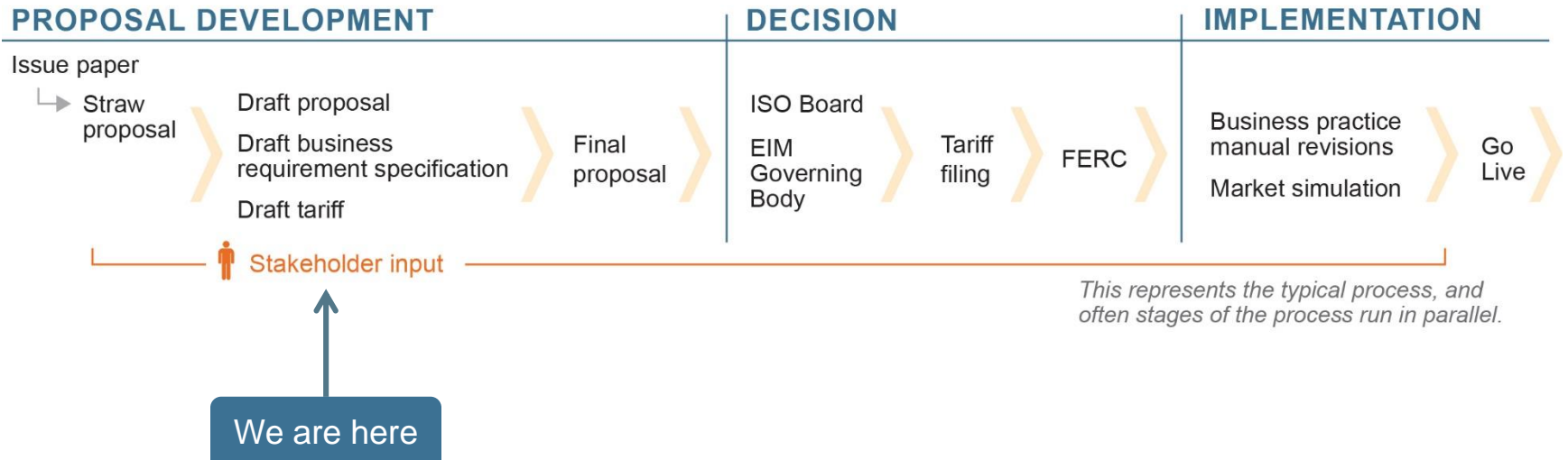
Perry Servedio, Danielle Tavel, and Daniel Johnson  
Market Design Policy

**Revised Draft Final Proposal**  
September 25, 2020

# Agenda

Topic	Presenter
Welcome and stakeholder process	James Bishara
Stakeholder comments and changes to proposal	Danielle Tavel
Proposal	Perry Servedio Daniel Johnson
EIM Classification and next steps	James Bishara

# CAISO policy initiative stakeholder process



# STAKEHOLDER COMMENTS

## Made several changes to address stakeholder concerns

- Revised trigger to be based on EIM BAA marginal energy costs and proxy peaker prices
  - Removed bi-lateral electrical hub prices
  - Replaced static \$100/MWh screen with dynamic internal proxy peaker price
  - Exclude BAAs that fail upward Flex Ramp Sufficiency Test
- Revised pivotal supplier test to also consider import offers as potentially pivotal supply
- Revised competitive LMP to be the greater of the second highest-priced EIM region's marginal energy cost or highest-priced cleared import on a constrained intertie

# Stakeholder comments (1 of 3)

- While some stakeholders are concerned that a HASP-only pivotal supplier test would not address suppliers producing below dispatch instructions
  - Physical withholding is a different issue that market power mitigation is not meant to directly address
- Some stakeholders suggested that the pivotal supplier test should consider economic import offers as potentially pivotal supply
  - Revised pivotal supplier test to also consider import offers as potentially pivotal supply
- Some stakeholders continue to advocate for a conduct-and-impact style market power test
  - Proposed design is consistent with existing LMPM design to streamline implementation

## Stakeholder comments (2 of 3)

- The CAISO disagrees with stakeholders that believe the pivotal supplier test should be extended to test participating resources in other EIM balancing authority areas
  - The purpose of this initiative is to address potential market power in the CAISO BAA
- The CAISO disagrees with stakeholders that are concerned that using the EIM price information in the trigger may lead to an unreasonable number of false negatives
  - This initiative is focused on when there is a potential for suppliers in the CAISO BAA to exercise market power
  - The EIM information exposes when the CAISO BAA demand can no longer access additional EIM imports

## Stakeholder comments (3 of 3)

- Some stakeholders are concerned that the competitive LMP calculation may be set by a small balancing authority area with little net supply
  - Addressing this would require more comprehensive EIM-wide mitigation changes
- Some stakeholders are concerned that using day-ahead bi-lateral electrical trading hub prices in the design would circumvent the process, improperly assume the hub is in a competitive region, and not reflect real-time supply and demand conditions
  - Removed day-ahead bi-lateral electrical trading hub prices from both the trigger and the competitive LMP



# PROPOSAL

# Proposal summary

- Pivotal supplier test triggered only when cut off from external supply:
  - CAISO in highest priced EIM region
  - CAISO prices greater than proxy peaker costs
- Pivotal supplier test only performed in HASP and considers economic import supply as potentially pivotal
- Only mitigate pivotal supply within the CAISO BAA
- Competitive LMP will be calculated in a manner to ensure that resources are not mitigated beyond the amount needed to resolve market power in the constrained area

## Major aspects of the proposal unchanged

- Perform pivotal supplier test only in HASP to properly account for competitive pressure from hourly block imports
- Use EIM BAA marginal energy cost information to determine when the CAISO is in a constrained region and the scope of the constrained region
- Only mitigate pivotal supply within the CAISO BAA

## Conditions that reasonably indicate that the CAISO balancing authority area is effectively import constrained

- CAISO effectively constrained from accessing additional **non-EIM** imports when its prices are higher than external proxy peaker prices
  - External proxy peaker prices indicate that lower cost peaking supply is available in the western interconnection
  - There may be transmission constraints beyond CAISO boundaries preventing peaking supply from reaching CAISO interties
- Calculated proxy peaker prices to include start-up costs and the cost elements that are included in DEBs
  - Start-up costs amortized over one hour

# Conditions that reasonably indicate that the CAISO balancing authority area is effectively import constrained

- CAISO constrained from accessing additional **EIM** imports
  - CAISO BAA in the highest cost import constrained EIM region
- Exclude BAAs that fail upward Flex Ramp Sufficiency Test from this comparison
  - BAAs that fail their upward Flex Ramp Sufficiency Test are administratively locked out of EIM, usually pushing them into higher priced tiers
  - In practice, CAISO BAA would have also been in the highest priced EIM region but for this administrative test

# CAISO prices indicate that suppliers could potentially exercise market power

- There were concerns that the past proposal, using a \$100/MWh price threshold, was not appropriate
  - Static threshold could not account for fluctuating gas prices that would cause real peaking prices to be higher or lower than \$100/MWh
  - \$100/MWh threshold could be viewed as somewhat arbitrary
- Propose to only perform the pivotal supplier test if CAISO BAA marginal energy costs are greater than its calculated internal CAISO proxy peaker prices
  - Less arbitrary and adjusts with gas prices
  - Calculation will use heat rate, gas prices, operations and maintenance, grid management charge, GHG, and 10% adder

## Pivotal supplier test will consider economic import offers as potentially pivotal supply

- Previously, all import supply would have been considered non-pivotal supply (subject to intertie constraints)
  - If all import supply is considered non-pivotal, pivotal suppliers could dilute the pivotal supply test with additional imports
- There is not a disincentive for suppliers to provide import supply because non-pivotal suppliers cannot become pivotal by offering more import supply
- Pivotal and non-pivotal import supply will still be limited by the various inter-related intertie constraints

## System-level competitive LMP will serve similar function as competitive LMP in local market power mitigation

- Ensure process does not mitigate resources beyond the amount needed to resolve market power in the constrained region
  - Avoids increasing net exports out of the constrained region due to over-mitigation
- Over-mitigation without a competitive LMP would increase net exports from the constrained region in two ways
  - EIM transfers could be reduced between the first and second highest priced EIM regions
  - Net import offers cleared at CAISO's constrained interties could be reduced



# System-level competitive LMP will serve similar function as competitive LMP in local market power mitigation

- System-level competitive LMP to be calculated as the greater of the following:
  - The second highest balancing authority area marginal energy cost in the EIM
  - The highest import offer cleared on a constrained intertie in the corresponding HASP 15-minute interval

## EIM Governing Body to have an advisory role

- The proposal falls within the EIM Governing Body's advisory role
  - Proposed changes would not change any market rules that are EIM-specific
- Stakeholders are encouraged to submit a written response if they have concerns or questions

# Proposed Initiative Schedule

Date	Milestone
9/18/2020	Publish Revised Draft Final Proposal
 <b>9/25/2020</b>	<b>Stakeholder call</b>
<b>10/5/2020</b>	<b>Stakeholder written comments due</b>
10/9/2020	Market Surveillance Committee meeting
Oct 2020 (TBD)	Development of Draft Business Rules Specifications and Draft Tariff Language
Late Oct 2020 (TBD)	Publish Final Proposal
11/4/2020	EIM Governing Body
11/18-19/2020	Board of Governor's meetings
Implementation	Prior to Summer 2021

## Next steps

- All related information for the System Market Power Mitigation initiative is available here:

<https://stakeholdercenter.caiso.com/StakeholderInitiatives/System-market-power-mitigation>

Please submit stakeholder written comments on today's discussion and the hybrid resources draft final proposal by **October 5, 2020**

### **Important – *Please review new process for submitting comments***

- Provide comments using the new stakeholder commenting tool
- First-time users must register using their email address in order to submit comments on initiatives
- The commenting tool is located on the Stakeholder Initiatives landing page (click on the “commenting tool” icon):

<https://stakeholdercenter.caiso.com/StakeholderInitiatives>