Stakeholder Comments
Local Market Power Mitigation (LMPM) Enhancements 2018

Submitted by	Company	Date Submitted
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SCE appreciates the opportunity to provide comments on the CAISO LMPM Enhancements Issue Paper and Straw Proposal[1]. To facilitate further discussion as planned by the CAISO[2], SCE believes the following questions should be addressed pertaining to this initiative.

<u>Calculation of competitive LMPs and the proposed adder</u>

The CAISO proposes to calculate competitive LMPs within individual real-time market intervals. SCE generally supports this proposed approach as a means to address the "flow reversal" issue[3]. However, the current rule of passing mitigated bids from the real time pre-dispatch (RTPD) to the real-time dispatch (RTD) was designed partly to avoid undesirable bid cost recovery (BCR) results[4]. The CAISO should examine whether this will be an issue under the proposed approach and if so, how to address the issue.

In addition, the CAISO proposes to set the mitigated price of resources at[5]

Mitigated bid = MAX (Default Energy Bid, Competitive Locational Marginal Price + $0.xx parameter)

The CAISO should clarify whether the adder ($0.xx parameter) applies to just EIM resources or both internal and external resources when LMPM triggers.

<u>EIM transfer freeze with a new constraint within EIM BAAs</u>

The CAISO proposes to freeze EIM transfers between EIM balancing authority areas (BAAs) to prevent economic displacement when LMPM triggers. Accordingly, the CAISO proposes to introduce a constraint that would limit the EIM transfer to the amount produced by the MPM run. This proposal leads to several questions:

- How would this proposal, along with the proposed adder to competitive LMPs, work with EIM BAAs within California? Would "flow reversal" and/or "economic displacement" create any issue to an EIM BAA that's located within California?

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[1] CAISO Proposal, dated September 13, 2018, http://www.caiso.com/Documents/IssuePaperandStrawProposal-LocalMarketPowerMitigationEnhancements.pdf.
CAISO Presentation, http://www.caiso.com/Documents/Presentation-LocalMarketPowerMitigationEnhancements-Sep19_2018.pdf.
[2] In particular, the CAISO has scheduled a stakeholder working group meeting on Oct 10, 2018.
[3] CAISO Proposal, at 9.
[4] Local Market Power Mitigation Enhancements 2015, Draft Final Proposal, at 13-14, available at http://www.caiso.com/Documents/DraftFinalProposal_LocalMarketPowerMitigationEnhancements2015.pdf.
[5] CAISO Proposal, at 11.

- A question on market revenue mismatch but for the proposed approach. The mismatch can be revenue surplus or shortage (aka uplift)[6]. SCE believes this question should be carefully addressed to ensure correct market incentives and any resulting cost should be allocated appropriately, such as limiting the cost allocation within pertinent BAAs.
- How the new constraint would impact the price formation. With the new constraint binding, the affected EIM BAAs will have different mitigated prices, which intuitively seem to be based on the marginal mitigated resource in each BAA (as illustrated in Examples D & E in the CAISO Proposal). However, what exact changes would be needed, and what are the potential impacts to the price formation are unclear. For instance, should the constraint be formulated to freeze the transfer or to not allow the transfer exceed the MPM amount (i.e. should the market run flow be equal to, or lower than or equal to, the MPM flow)? Should the new constraint be considered as non-competitive? Would the proposed approach result in schedules inconsistent with prices? In particular, Example E of the CAISO Proposal appears to suggest that under the proposal, power can be imported from a higher price BAA to a lower price BAA which seems problematic.

The proposed default energy bid (DEB) option for EIM use-limited resources only

The CAISO proposes to provide an additional DEB option for EIM use-limited resources. The CAISO's justification for this DEB option for EIM, rather than internal, use-limited resources seems to be based on that an EIM resource (i.e., the base schedule portion of the resource) may settle outside the CAISO market. However, it is unclear how this relates to the DEB determination for the resource, for example, if the base schedule is modeled as self-schedule, then DEB for that portion is irrelevant. In addition, given that base schedules are generally for balancing the load, for an EIM BAA that does not serve its own load, how are the base schedules of its resources determined? Given the importance of this fundamental change, the CAISO should articulate the need for special treatment for EIM use-limited resources. Numeric examples demonstrating how a bid-in portion (including base schedule) of an EIM resource may get settled outside the CAISO market, and how this would impact the DEB determination for the resource differently than an internal resource, are likely needed for this purpose[7].

In addition, the CAISO should clarify how the proposed option would work in conjunction with the implementation of commitment cost enhancements Phase 3 (CCE 3). In particular, would a resource receive double recovery of opportunity costs if a resource is eligible to include its opportunity cost under CCE3 AND under the proposed option?

[6] As seen in Example D (revenue surplus) and Example E (uplift) of the CAISO Proposal, at 17-23.
[7] In deciding whether this new option is necessary, other factors should also be considered, including the availability of the negotiated DEB option, the proposed calculation of competitive LMP within individual real time market intervals in addressing the flow-reversal issue, and the potential extension of EIM into the day-ahead market.

Proposal of reference level adjustments

The CAISO proposes to provide for manual review of market participant requests to adjust reference levels used for the CAISO's real-time market for gas resources[8]. The CAISO should clarify the following:

- What's the process and timeline for such requests? I.e., would it be a phone call, email or via other market systems? And when?
- Would the market get notified when a supplier places such request? If so, would the notification be real-time so the rest of the market, or suppliers with similar resources, can adjust their bids in real-time?
- Should the process include necessary adjustments to the reference level when intra-day gas prices significantly decrease (e.g. when the gas price drops to a normal level)? If not, why?
- Will the process work for multiple changes to the intraday gas price? For example, if there are two significant increases during the day? Or an increase followed by a decrease?

In summary, SCE believes the issues listed above, as well as other potential issues, should be fully addressed as this initiative proceeds and SCE looks forward to further discussion on these issues.

[8] CAISO Proposal, at 30.