



## Stakeholder Comments Template

### System Market Power Mitigation

This template has been created for submission of stakeholder comments on the Draft Final Proposal for the System Market Power Mitigation initiative. The paper, stakeholder meeting presentation, and all information related to this initiative is located on the [initiative webpage](#).

Upon completion of this template, please submit it to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com). Submissions are requested by close of business **July 14, 2020**.

Submitted by	Organization	Date Submitted
<i>Kallie Wells</i> <a href="mailto:kwells@gridwell.com">kwells@gridwell.com</a>	<i>Gridwell Consulting for The Western Power Trading Forum</i>	<i>July 14, 2020</i>

**Please provide your organization's general comments on the following issues and answers to specific requests.**

WPTF would like to take this opportunity to reiterate its position that, while we support protecting against market power, the costs of implementing the proposed system market power mitigation mechanism may not outweigh the benefits. To that end, WPTF requests that the CAISO consider other solutions prior to moving forward with implementing the mitigation mechanism based on a three pivotal supplier test.

Throughout the entire stakeholder process, and during the MSC discussion preceding the formal stakeholder process, there were several other solutions the CAISO could have considered for addressing the potential presence of system market power. Thus, WPTF respectfully requests that the CAISO seriously consider the alternative solutions, such as incenting LSEs to engage in long term contracting, and/or take additional time to vet and consider a conduct and impact test rather than moving forward with the proposed pivotal supplier test. The CAISO continues to note that the reason they have not considered a conduct and impact test is the urgency at which they want a system market power mitigation mechanism implemented. However, the CAISO's data has yet to show the presence of system market power and given the additional procurement mandated by the CPUC, WPTF is still not convinced that system market power is looming around the corner such that we should expedite the implementation of a knowingly flawed designed. **In fact the CAISO's DMM just released analysis in its 2019 Annual Report on Market Performance and Issues showing that (1) prices in 2019 were competitive and (2) the day-ahead market was more structurally competitive in 2019 compared to 2017 and 2018.** Thus, the idea that supply on the system is tightening year after year and something needs to be implemented sooner rather than later is not even supported by the CAISO's own analysis. This entire effort seems to be a solution in search for a problem.

WPTF offers the more detailed comments below in the event the CAISO continues moving forward with the current design.

### 1. Pivotal Supplier Test Trigger

Please provide your organization's specific feedback on the ISO's Pivotal Supplier Test Trigger proposal, as described within the draft final proposal, which includes several criteria to only perform the three pivotal supplier test when there is a potential for system-level market power.

WPTF appreciates the additional thought that went into modifying the Pivotal Supplier Test Trigger and we consider these changes and improvement over the previous proposal. WPTF had significant concerns with the previous design and, as the data provided by the CAISO indicated, the pivotal supplier test would have been triggered in nearly 1/3 of all FMM intervals and in hours that did not necessarily align with hours during which one would anticipate the potential for uncompetitive conditions. WPTF believes the four proposed triggers in this iteration will help mitigate the concern but, as discussed in more detail below, encourages the CAISO to (1) consider a modification to one of the criteria and (2) provide additional analysis.

One of the criteria used to determine when the pivotal supplier test is conducted is based on the CAISO's estimated proxy cost for a gas-fired peaker. Specifically, the CAISO BAA's marginal energy price must be greater than the CAISO's estimated cost for a gas-fired resource. It is WPTF's understanding that within the CAISO's calculation of the proxy cost, the CAISO will use the highest gas price index of a gas region within the EIM. Based on discussions during the call, it seems as though the CAISO is not including the gas price indices from regions within the CAISO BAA. If that is accurate, WPTF believes the gas price indices used should be expanded to also include those within the CAISO BAA. The premise behind having this trigger is to determine if the higher prices within the CAISO BAA are reflecting market power. However, it could be the case that the prices within the CAISO BAA are higher due to higher gas prices internal resources are facing relative to those being faced by external resources; thus one would expect the prices within the CAISO BAA to be higher as they are reflecting higher marginal costs. While we appreciate that three other conditions would also have to hold true at the same time, none of the other criteria would protect against triggering the pivotal supplier test due to higher gas prices within the CAISO BAA. It can be the case that all the criteria are met simply due to the fact that during a hot summer day the CAISO internal gas-fired resources are on the margin and facing higher gas prices than those outside the CAISO BAA, yet the prices within the CAISO BAA are reflecting the higher marginal energy costs and not market power. By including the gas price indices from gas regions within the CAISO BAA, this concern is mitigated.

Additionally, WPTF would appreciate the CAISO conducting, and posting, an analysis that evaluates how frequently the pivotal supplier test would be triggered based on the new criteria. It was eye-opening with the previous proposal to see that the pivotal supplier test would have been triggered 28% of the time and during hours when market power is least likely to be present; thus it would be extremely beneficial to go through the same exercise here to ensure the test will not be unduly triggered such that the potential costs of over mitigation outweighs the potential benefits. The study should also include a summary of the hours/months and corresponding load conditions when the pivotal supplier test would be triggered. WPTF asks that the study be posted and discussed with stakeholders in sufficient time such that the CAISO can consider the results and feedback before finalizing the proposal.

## 2. Pivotal Supplier Test Design

Please provide your organization's specific feedback on the ISO's proposal to use the three pivotal supplier test to determine if pivotal suppliers in the ISO Balancing Authority Area (BAA) could exercise market power in the constrained region, as described within the draft final proposal.

As discussed in detail in prior comments, the three pivotal supplier test is a blunt instrument and by design will result in false positives. Mitigating when market power does not exist will not only suppress prices during periods of tight supply, when one would want and expect strong price signals, but also deter the entry of additional and much needed supply.

WPTF continues to urge the CAISO to take the time necessary to consider and vet other designs, such as a conduct and impact test.

## 3. Determining competitive LMP

Please provide your organization's feedback on the proposal to calculate the competitive locational marginal price (LMP) when the ISO BAA fails the system-level market power mitigation test.

WPTF suggests the CAISO also consider within its formulation of the competitive LMPs the gas price indices within the CAISO BAA for the same reasons articulated for (1) above.

## 4. Applying mitigation to internal supply offers

Please provide your organization's feedback on the proposal to apply the Pivotal Supplier Test to mitigate pivotal supplier resource offers within the ISO's BAA when the pivotal supplier test fails.

## 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.

### *Interaction with LMPM*

WPTF would like to better understand how the SMPM will interact with LMPM, especially when resources are subject to both SMPM and LMPM. Assume a resource's DEB is lower than both the SMPM and LMPM competitive LMPs such that the bids are lowered to the competitive LMP rather than the DEB. If that resource first has its bids lowered to the competitive LMP due to SMPM, but then subsequently is also flagged for mitigation under LMPM, will the bids remain at the SMPM competitive LMP even if the competitive LMP based on LMPM is higher?

For example, assume a resource is mitigated based on SMPM in HASP to \$35/MWh. During the FMM run, the resource is also subject to mitigation under the LMPM design. Due to different congestion in the FMM run on competitive constraints, the competitive LMP as determined by the LMPM is \$45/MWh. Will the market keep the bid for that resource at the lower \$35/MWh SMPM competitive LMP or increase it to the newly updated \$45/MWh competitive LMP?

*Scarcity pricing*

WPTF continues to request the CAISO to kick off a separate scarcity pricing initiative sooner rather than later. We appreciate the CAISO acknowledging that the market needs a robust scarcity pricing mechanism in place, especially considering SMPM. However, during the call, the CAISO clarified that scarcity pricing will not be a separate initiative in the catalog but rather included in the EDAM effort. Based on the current EDAM Buckets, scarcity pricing would likely fall into the third bucket, which isn't scheduled to kick off until Q2 of 2021, assuming all goes as scheduled. In comparison, SMPM is scheduled to be implemented before summer of 2021, thus there will be a significant period during which SMPM is implemented absent a scarcity pricing mechanism. Furthermore, by including scarcity pricing within the EDAM policy effort, the consideration of a scarcity pricing mechanism will be dependent on the progress and completion of a very complex market design policy process. Even absent an EDAM, scarcity pricing is necessary and thus should not be tied to the progress of any other policy effort.

Lastly, EDAM is a day-ahead market policy process whereas scarcity pricing should span both day-ahead and real-time. For this reason as well, WPTF believes scarcity pricing should either be included in the SMPM effort or be a standalone policy effort that is prioritized such that it can be implemented alongside SMPM.

*Post-implementation Assessment*

In the event the CAISO opts to move forward with this effort, WPTF requests that the CAISO commit to conducting an assessment after the SMPM mechanism has been in place for one year. As was the case with the LMPM, gained experience identified issues that were unforeseen as well as areas that could be enhanced. Especially given the potential for this effort to suppress market price signals and deter supply, WPTF believes committing to an assessment will provide an opportunity to re-evaluate the cost/benefit of this market design with actual operational and market data.