



Stakeholder Comments Template

System Market Power Mitigation

This template has been created for submission of stakeholder comments on the Straw Proposal for the System Market Power Mitigation. 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. Submissions are requested by close of business **January 10, 2019**.

Submitted by	Organization	Date Submitted
<i>Kallie Wells</i> kwells@gridwell.com	<i>Gridwell Consulting for Western Power Trading Forum</i>	<i>January 10, 2019</i>

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

1. Background and scope

Please provide your organization's feedback on the background and scope of this initiative, as described within the straw proposal. Please explain your rationale and include examples if applicable.

WPTF continues to advocate for a "monitor and see" approach. The CAISO has not provided evidence that system market power is an issue such that the cost to design and implement SMPM, and potentially deter supply outweighs any potential benefits.

If, however, the CAISO is intent of going forward with this effort, WPTF cautions the CAISO to do no harm to market price signals. In order to protect transparent, accurate price signals, the CAISO should combine any potential market design change with improvements to pricing during shortage/scarcity conditions. As discussed further in these comments, it is crucial to get pricing signals right during scarcity conditions, but just as much so in shortage conditions when supply is tight but not exhausted.

Additionally, WPTF believes it should be the goal of the CAISO and stakeholders alike to have as rational and reasonable mitigation policy put in place from the beginning, assuming the CAISO continues moving forward with this effort. Thus, as we continue discussing some of the design elements, it will be imperative that we keep this in mind.

2. Phased approach

Please provide your organization's feedback on the phased approach as described within the straw proposal. Please explain your rationale and include examples if applicable.

WPTF appreciates the CAISO's acknowledgment that there are additional complexities that it needs to consider with stakeholders for the SMPM design in the day-ahead market. In particular, coordination with the DAME and EDAM proposals is crucial, since the shape those proposals take will dictate what SMPM design is feasible. While we accept the rationale for the phased approach, WPTF encourages the CAISO to weigh myriad design options. We are concerned that the first phase design of SMPM in the real-time market will differ from the ideal design that is developed with more time and deliberation for the day-ahead. WPTF therefore strongly encourages the CAISO not to finalize its real-time design hastily only to find that it is incompatible with the enhanced or expanded day-ahead market.

WPTF cautions against leveraging local market power design elements for the sake of expediency. Again, given that the CAISO has not found evidence of system market power, time and care should be taken to provide analysis and benchmarking against other organized markets. The CAISO should also take the time to assemble and consider a full range of solutions including a conduct and impact test. Especially with the unknown of the DAME or EDAM design, a holistic and comprehensive analysis is key to avoiding disparate designs in the IFM and real-time which could have adverse market impacts.

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.

In its proposal, the CAISO notes that imports over three interties represent 60% of total imported energy. While this is an important consideration, the CAISO should not disregard the remaining 40% – nearly half! – of capacity accessible on other interties. Because the CAISO would still have access to competitive supply on the remaining interties, WPTF does not agree that the CAISO is import-constrained when the three identified ties are binding.

If the CAISO deems that binding interties are the appropriate trigger to run market power tests, the CAISO should use a more exhaustive list than the three interties called out in the proposal. Further, WPTF requests additional analysis on the MW quantities and variation of import supply at the interties being evaluated.

WPTF agrees that the CAISO should not consider itself import-constrained if all import offers have been exhausted before the intertie is actually binding. Rather than being uncompetitive conditions, this is simply indicative of tight supply conditions.

WPTF is unclear how the import constraint test results would differ much, if at all, between the 15-minute and 5-minute markets. Intertie schedules are set in the 15-minute market, and it is our understanding that any cleared imports are fed into the 5-minute market as self-schedules. Would it then follow that when the CAISO is deemed import constrained in one 15-minute interval it will then also be import-constrained in each of the corresponding 5-minute intervals? If this is the case, WPTF believes additional discussion is warranted on whether or not that is an intended outcome of the design. The CAISO just went through a stakeholder process to wholly separate the testing and mitigation of local market power

due to the unintended consequences. It seems that if this is the case, then the system market power design may also be suspect to the same unintended consequences.

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.

WPTF has previously expressed its myriad concerns with the Pivotal Supplier Test, and we continue to believe that this topic needs further discussion. As the test is currently formulated in the proposal, it is biased to trigger more often by not including all import offers in the numerator. While WPTF understands the concern that bad actors could circumvent mitigation by submitting high priced import offers. However, the incentive for this is already mitigated as such actors would face the risk of those bids clearing and then being subject to intertie deviation penalties. The CAISO could therefore consider including all import offers up to the intertie limit in the numerator instead.

WPTF requests clarification as to the treatment of net buyer and sellers. In the current LMPM design, net buyers are not considered potentially pivotal supply. Has the CAISO contemplated treatment of net buyers for the purpose of SMPM?

WPTF reiterates that the CAISO should also consider a conduct and impact test rather than excluding that up front.

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.

WPTF encourages the CAISO to continue discussion on the potential for only mitigating pivotal supplier offers rather than all offers, and to mitigate only those offers internal to the CAISO BAA. This discussion, however, will be most robust and efficient if it is informed by the proposals for the extended and expanded day-ahead market.

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.

No comments at this time.

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.

WPTF recommends that the CAISO add an additional design principle to explicitly consider the costs and benefits of over- and under-mitigation. Specifically, the CAISO should weigh the costs and benefits to the market of type I (over-mitigation) and type II (under-mitigation) errors. Over-mitigation could deter voluntary import supply offers and could even dissuade to new entry into the market.

Additionally, over-mitigation would result in inefficient price signals during shortage and scarcity conditions. For this reason, WPTF urges the CAISO to consider re-evaluating scarcity triggers in conjunction with a stepped power balance constraint. A graduated constraint would allow prices to rise during shortage conditions rather than jumping from an over-mitigated bid to penalty price.

The CAISO's current scarcity pricing is based on shortages of ancillary services. In practice this means that scarcity pricing is rarely (if ever) triggered in the day-ahead market; in real-time its only triggered in the 15-minute market since ancillary services are not procured in the 5-minute market. Thus, while it's an effective scarcity pricing mechanism for ancillary services, it lacks the ability to appropriately reflect tight supply conditions in the energy prices in all markets.