

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Public Service Company of New Mexico)

Docket No. ER10-2302-010

**COMMENTS OF THE DEPARTMENT OF MARKET MONITORING
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rule 212 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. §§385.212, the Department of Market Monitoring (“DMM”), acting in its capacity as the Independent Market Monitor for the California Independent System Operator Corporation (“CAISO”), submits these comments in the above-captioned proceeding.

I. SUMMARY

In this proceeding, Public Service Company of New Mexico (PNM) submits an updated market power analysis for the relevant geographic markets in the Southwest region. The relevant geographic markets include the Western Energy Imbalance Market (WEIM), an extension of the CAISO real-time market. This updated market power analysis is submitted to satisfy Commission requirements for triennial review of previously granted market-based rate power sales authorizations.

From its analysis, PNM concludes that it lacks market power in the WEIM and continues to satisfy the requirements for market-based rate (MBR) authority. As the independent market monitor for the CAISO, DMM supports the continuation of PNM’s authority to sell at market-based rates in the WEIM for the following reasons: (1) the WEIM is structurally competitive under most conditions; (2) the PNM balancing area has not

been subject to any frequently binding transmission constraints in the WEIM; and (3) potential structural market power that may exist in a limited number intervals would be mitigated by the CAISO's real-time bid mitigation procedures.

III. COMMENTS

The WEIM is structurally competitive

DMM has performed a series of analyses of the structural competitiveness of the WEIM. In 2020, DMM published one such report and analysis for the PNM balancing area (DMM PNM Report)¹. The DMM PNM Report was published just prior to PNM's participation in the WEIM, covering the period August 1, 2018 to July 31, 2020.

The DMM PNM Report assessed the potential structural competitiveness of the PNM balancing area in the WEIM by comparing the total historical demand for imbalance energy within the PNM balancing area to the total supply from non-PNM sources that could compete to meet this demand when PNM began participating in the WEIM. During intervals when the amount of incrementally available competitive supply exceeds the total demand for imbalance energy within the PNM balancing area, PNM is not pivotal since total demand can be met by other competitive supply.

The analysis in the DMM PNM Report shows that PNM was not likely to be pivotal, and that the WEIM in the PNM balancing area was likely to be structurally competitive during almost all intervals due to the large amount of competitive supply that could be transferred into the PNM balancing area through the WEIM.

¹ *Assessment of potential competitiveness in the energy imbalance market: Public Service Company of New Mexico Balancing Area* ("DMM PNM Report"), Department of Market Monitoring, September 17, 2020: <http://www.caiso.com/Documents/AssessmentofPotentialCompetitivenessinEIM-PublicServiceCompanyofNewMexico-Sep172020.pdf>

The analysis presented in the DMM PNM Report does not extend through the full study period of current PNM triennial filing. However, recent analysis of the level of WEIM transfer capacity into the PNM balancing area since it began participating in the WEIM shows that the quantity of WEIM import transfer capacity has consistently exceed that estimated in the DMM PNM report.² This implies that the quantity of competitive supply available to PNM in the WEIM exceeds that assumed in the DMM PNM report. Therefore, absent very large increases in imbalance demand from levels estimated in the DMM PNM Report, the PNM balancing area likely remains structurally competitive in WEIM.³

Congestion on WEIM transfer constraints into the PNM balancing authority area has been very infrequent

DMM conducted an analysis of historical congestion and price separation of the PNM balancing area in the WEIM for the period April 1, 2021 to November 30, 2021. For this period, the analysis reveals that binding WEIM import constraints caused elevated PNM balancing area prices above the CAISO system price in only 1 percent of 15-minute intervals and 0.8 percent of 5-minute intervals.⁴

² The DMM PNM Report estimated that the PNM balancing area would have 900 MW of total import transfer capacity in the WEIM. Table 2.1 of the *Department of Market Monitoring Q2 2021 Report on Market Issues and Performance* shows an average of 1030 MW import transfer capacity from April 1 to June 30. Table 2.1 of the *Department of Market Monitoring Q3 2021 Report on Market Issues and Performance* shows an average of 960 MW import transfer capacity from July 1 to September 30. <http://www.caiso.com/Documents/2021-Second-Quarter-Report-on-Market-Issues-and-Performance-Oct-5-2021.pdf>; <http://www.caiso.com/Documents/2021-Third-Quarter-Report-on-Market-Issues-and-Performance-Dec-9-2021.pdf>

³ In the DMM PNM Report, DMM finds that the potential amount of competitive supply available to the PNM balancing area in WEIM is several times the 99th percentile of total demand for imbalance energy in the PNM balancing area.

⁴ Import price separation is indicated for intervals where the PNM balancing area power balance shadow price exceeds a threshold of \$0.01, after subtracting the WEIM greenhouse gas shadow price.

This analysis of historical congestion of WEIM transfer scheduling constraints aligns with that presented in the current PNM triennial filing, and further supports the conclusion that the PNM balancing area is structurally competitive in the WEIM.

The CAISO's current market rules effectively mitigate market power in the WEIM

During the relatively small number of intervals when PNM may be pivotal and competitive supply from the rest of the WEIM is limited by congestion, CAISO's real-time bid mitigation procedures effectively mitigate any potential structural market power.

Potential under-mitigation of the PNM balancing area in the WEIM in the 15-minute market occurred in only 6 percent of congested intervals between April 1, 2021 and November 30, 2021. In the 5-minute market, potential under-mitigation during intervals when WEIM transfer constraints were binding occurred in only 8 percent of congested intervals for the PNM balancing area. Performance of mitigation for the PNM balancing area in 2021 was similar to the performance of local market power mitigation on WEIM transfer constraints for other balancing areas in the recent past, as shown in the 2020 DMM Annual Report on Market Issues and Performance.⁵

The high degree of accuracy to CAISO's real-time market power mitigation procedures minimizes the risk of potential under-mitigation during the relatively small portion of intervals when WEIM transfer constraints are binding. This level of accuracy ensures the effectiveness of automated mitigation procedures and mitigates concern that an WEIM entity would have the opportunity to exercise market power through economic withholding.

⁵ DMM Annual Report on Market Issues and Performance, p. 178:
<http://www.caiso.com/Documents/2020-Annual-Report-on-Market-Issues-and-Performance.pdf>

IV. CONCLUSION

Since the addition of NV Energy to the WEIM in December 2015, all WEIM balancing areas have been structurally competitive during almost all intervals. DMM's most recent analysis of the potential competitiveness of the PNM balancing area, the realized quantities of WEIM import transfer capability exceeding those estimated in earlier analysis, and DMM's analysis showing that WEIM transfer constraints into the PNM balancing area bind infrequently continue to support that this particular WEIM area is structurally competitive. The structural competitiveness effectively mitigates the potential for both physical and economic withholding in the PNM balancing area.

During the very small portion of intervals when PNM may be pivotal, and competitive supply into the PNM balancing area may be limited by binding WEIM transfer constraints, this potential structural market power is mitigated by the CAISO's highly accurate real-time bid mitigation procedures.

The high degree of accuracy of the automated mitigation procedures mitigates concerns that PNM would have the opportunity to exercise market power through economic withholding in the WEIM. Therefore, DMM supports the continuation of PNM's market-based rate authority in the WEIM, subject to the market power mitigation provisions of the CAISO tariff.

Respectfully submitted,

By: /s/ Adam Swadley

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Independent Market Monitor for the
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Dated: February 25, 2022

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 25th day of February, 2022.

/s/ Jennifer Shirk

Jennifer Shirk