

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

Arizona Public Service Company)

Docket No. ER10-2437-017

**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, Arizona Public Service Company (APS) 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 CAISO’s 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, APS concludes that it lacks market power in generation and transmission in the relevant markets, and is unable to erect barriers to entry. As the independent market monitor for the CAISO, DMM supports the continuation of APS’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 APS 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 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 APS balancing area, covering the period December 1, 2017 to November 30, 2019 (DMM APS Report).¹

The DMM APS Report assesses structural competitiveness by comparing the total demand for imbalance energy within the APS balancing area to the total supply from non-APS sources that could compete to meet this demand through the WEIM. During intervals when the amount of incrementally available competitive supply exceeds the total demand for imbalance energy within the APS balancing area, APS is not pivotal since total demand can be met by other competitive supply. The analysis in the DMM APS Report shows that APS is not pivotal, and the WEIM in the APS balancing area is structurally competitive during almost all intervals due to the large amount of competitive supply that could be transferred into the APS balancing area through the WEIM.

The analysis presented in the DMM APS Report does not extend through the full study period of current APS triennial filing. However, the APS balancing area gained access to a significant amount of additional WEIM transfer capacity and competitive supply in 2020 when

¹ *Structural competitiveness of the energy imbalance market: Arizona Public Service Balancing Area* (“DMM APS Report”), Department of Market Monitoring, June 12, 2020: <http://www.caiso.com/Documents/Structuralcompetitivenessoftheenergyimbalancemarket-ArizonaPublicServiceBalancingArea-June122020.pdf>

Salt River Project (SRP) joined the WEIM. Therefore, absent very large increases in imbalance demand from levels estimated in the DMM APS Report, the APS balancing area likely remains structurally competitive in WEIM.²

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

The DMM APS Report provides an analysis of historical congestion and price separation. The DMM APS Report shows that for the period December 1, 2017 – November 30, 2019, the APS balancing area was very infrequently price separated from the CAISO system by binding WEIM scheduling constraints.

For further analysis, DMM extended the analysis of historical congestion and price separation to the period December 1, 2019 – November 30, 2020. Findings of this extended analysis continue to show that WEIM transfer constraints into the APS balancing area are not frequently congested.³

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

² In the DMM APS Report, DMM finds that the potential amount of competitive supply available to the APS balancing area in WEIM is several times the total demand for imbalance energy in the APS balancing area.

³ The extended shows that the APS balancing area was separated from the CAISO system in 2 percent of 15-minute intervals and 1.6 percent of 5-minute intervals between December 1, 2019 and November 30, 2020.

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

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

As indicated in the DMM APS Report published in 2020, potential under-mitigation of the APS balancing area in the WEIM in the 15-minute market occurred in only 2 percent of congested intervals between December 1, 2017 and November 30, 2019.⁴ In the 5-minute market, potential under-mitigation during intervals when WEIM transfer constraints were binding occurred in only 3 percent of congested intervals for the APS balancing area.⁵

As shown in the 2020 DMM Annual Report on Market Issues and Performance, performance of local market power mitigation on WEIM transfer constraints in 2020 was similar to the period analyzed in the DMM APS Report. In 2020, potential under-mitigation may have occurred when the APS WEIM transfer constraints were congested in 3 percent of 15-minute intervals, and 8 percent of 5-minute intervals.⁶

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

⁴ DMM APS Report, p. 17

<http://www.caiso.com/Documents/Structuralcompetitivenessoftheenergyimbalancemarket-ArizonaPublicServiceBalancingArea-June122020.pdf>

⁵ Ibid

⁶ DMM Annual Report on Market Issues and Performance, p. 178:

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

an WEIM entity would have the opportunity to exercise market power through economic withholding.

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 competitiveness of the APS balancing area, the APS balancing area's ability to access significant quantities of additional competitive supply with SRP joining the WEIM in 2020, and DMM's analysis showing that WEIM transfer constraints into the APS 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 APS balancing area.

During the very small portion of intervals when APS may be pivotal and competitive supply into the APS 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 APS would have the opportunity to exercise market power through economic withholding in the WEIM. Therefore, DMM supports the continuation of APS's market-based rate authority in the WEIM, subject to the market power mitigation provisions of the CAISO tariff.

Respectfully submitted,

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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