

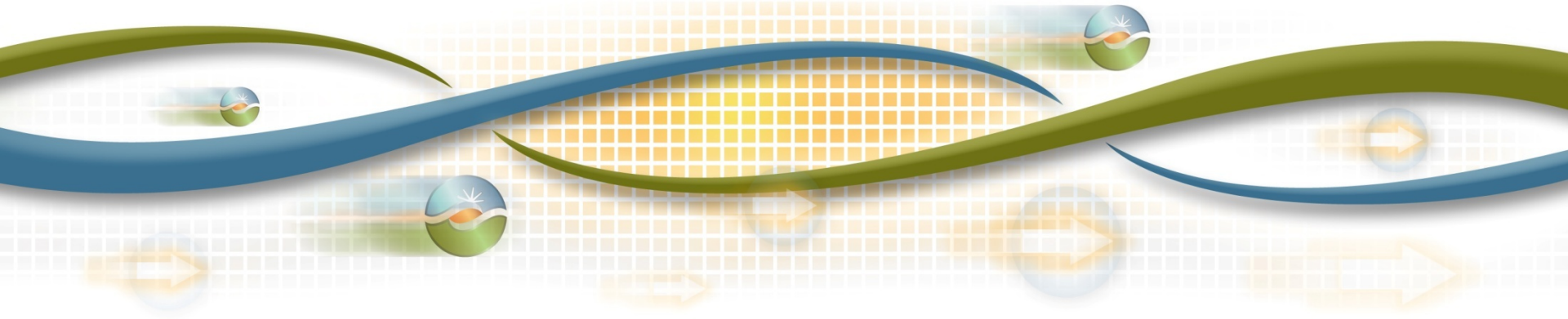


California ISO

# Dynamic commitment cost market power mitigation discussion

Michael Castelhano, Ph.D.  
Department of Market Monitoring

Market Surveillance Committee Meeting  
General Session  
September 8, 2017



# Overview of DMM's current position on CC DEB

- Reference levels and adjustments need additional work and clarity before DMM could support.
  - Place emphasis on ISO using most current gas market information to minimize need for any requests for further adjustments by participants
- Commitment cost bidding and mitigation is unclear, and where detail has been added some of the detail is flawed
- DMM suggests splitting into two pieces
  - Focus on getting new process for reference levels and adjustments in place by 2018.
  - Then continue development of commitment cost bidding and mitigation.

*Rest of this discussion focuses on key problems with commitment cost mitigation proposal.*

## Issue #1: ISO proposes to use static CPA to determine constraints to test for commitment cost MPM

- Models run at seasonal level are not good approximations of daily or hourly conditions
- Static approach will lead to both unnecessary mitigation and under mitigation that missed the exercise of market power/BCR gaming.
- Comments from earlier iterations of LMPM Enhancements Initiative (ca. 2011) give a good overview of stakeholder dissatisfaction on static CPA.
- Risks of under mitigation of market power/gaming may be even more significant for commitment costs.

## Issue #2: Choosing constraints to exclude from commitment cost mitigation

- ISO approach involves building list of constraints to include in mitigation
  - DMM suggests opposite approach of building list of constraints that can be excluded from mitigation.
- DMM proposes default set includes all critical constraints.
  - Otherwise can miss important opportunities for market power
- Start from there and exclude some constraints only if found to be competitive.
- Example: constraint that goes to load pocket with no gen (no resources provide counterflow)

## Issue #3: Inter-temporal issues need to be addressed in policy phase.

- Inter-temporal market power concerns
  - ISO says will address in implementation, but this is too important to be left for implementation
- BCR gaming concerns also potentially significant
  - Exacerbated by both higher commitment bid ceiling and ability to vary min load hourly throughout the day
- Any solutions will have very different impacts on market results and different market participants, so should be part of policy development.

## Issue #4: ISO's Net effect of commitments (NEC) proposal

- NEC seems to attempt to mimic energy mitigation criteria for commitment costs mitigation.
- DMM believes that this is fundamentally flawed approach for commitment cost mitigation.
- Energy mitigation question: how do different constraints impact LMP?
- Commitment mitigation question: how do different constraints impact likelihood of commitment?

# Diagram of NEC issues

