

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

FEDERAL ENERGY REGULATORY COMMISSION

Nevada Power Company)	Docket No. ER17-2394-000
)	
Sierra Pacific Power Company)	Docket No. ER17-2395-000
)	
PacifiCorp)	Docket No. ER17-2392-000

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

The Department of Market Monitoring (DMM) for the California Independent System Operator Corporation (CAISO) respectfully submits these comments in response to Motion to Intervene and Protest in the above-captioned proceedings filed by the Truckee Donner Public Utility District (“Truckee”).¹ In these proceedings, the Nevada Power Company and Sierra Pacific Power Company (collectively, the NV Energy Companies) and PacifiCorp (together with the NV Energy Companies, the “BHE EIM Participants”) propose revisions to their respective market-based rate tariffs to enable their participation in the Energy Imbalance Market (EIM) administered by the CAISO using market-based rates, subject to the market power mitigation provisions of the CAISO tariff, instead of current requirements to participate in the EIM using the cost-based Default Energy Bid (DEB) at all times.² As explained below, the comments

¹ Truckee Donner Public Utility District, *Docket Nos. ER17-2394-000, ER17-2394-000, ER17-2394-000, Motion to Intervene and Protest* (September 21, 2017).

² *Amendments to Market-Based Rate Tariffs Regarding Market-Based Rate Authority for the Energy Imbalance Market*, Docket Nos. ER17-2394, ER17-2395, ER17-2392, August 31, 2017, filed by Nevada Power Company and Sierra Pacific Power Company (collectively, the NV Energy Companies) and PacifiCorp (together with the NV Energy Companies), referred to as the BHE EIM Participants.

submitted by Truckee do not support denying the request of BHE EIM Participants or the additional conditions proposed by Truckee. Therefore, the Commission should approve the request of BHE EIM Participants without the special reporting conditions proposed by Truckee.

I. Response to Comments

Analysis of historical congestion

Truckee is concerned that the very low incidence of transmission congestion during the period when the BHE EIM Participants have participated in the EIM using cost-based bids may not foretell how often congestion will occur when cost-based bidding requirements are removed.³

DMM agrees that historical analysis of congestion and price separation such as that provided in the BHE EIM Participants' filing and DMM's initial comments are not definitive indicators of a lack of the existence of a potential submarket or market power. However, both the BHE EIM Participants and DMM have also provided additional analyses that clearly demonstrate the structural competitiveness of the BHE EIM Participants' BAAs in the EIM. These additional analyses are based on the underlying market structure of competitive supply and demand, and are not based in any way on these historical congestion patterns. The structural analyses by BHE EIM Participants and DMM both show that the EIM market in these BAAs is structurally competitive during almost all intervals due to the large amount of competitive supply that could be transferred into the BHE EIM BAAs through the EIM.⁴ Both analyses show that during

³ Truckee, pp. 2 and 8.

⁴ BHE EIM Participants' filing page 21 and page 11 of *Structural Competitiveness of the Energy Imbalance Market: Analysis of Market Power of the Berkshire Hathaway Entities*, June 29, 2017, (the "DMM BHE Report"). Included in the BHE EIM Participants' filing.

almost all intervals, the potential amount of competitive supply that can be transferred in through the EIM is several times the total demand for imbalance energy in the BHE EIM BAAs.⁵ These analyses show that even if the BHE EIM BAAs sought to create congestion and raise prices by economically or physically withholding capacity, the demand for imbalance energy in these areas could be met by competitive supply from other BAAs available through the EIM. These analyses provide clear independent evidence that the BHE EIM BAAs are highly competitive, which makes Truckee's concerns that the very low levels of congestion were caused by cost-based bidding requirements irrelevant.

Mitigation of market power within BHE BAAs

Truckee also remains concerned about the ability of the BHE EIM Participants to exercise market power within their own BAAs to raise prices within the EIM. Specifically, Truckee contends that "if there is no congestion on the EIM interties, but there is congestion within the NV Energy BAA that creates a local load pocket, Berkshire may have the ability to exercise unmitigated market power within that local load pocket. It may be the case that the DMM has procedures to mitigate bids in such a situation, but Berkshire does not identify any tariff provisions that would ensure consumers in a load pocket are protected from local market power abuse."⁶

DMM's initial comments in these proceedings provided a discussion of the various tariff provisions and automated bid mitigation procedures that mitigate potential for exercising market power in the 15-minute and 5-minute real-time markets by bidding

⁵ DMM BHE Report pages 12-13 and BHE EIM Participants' filing page 21.

⁶ Truckee, pp. 8.

in excess of costs.⁷ All of these mitigation provisions and procedures apply to all flow based constraints *within* each individual EIM BAA, as well as to EIM transfer constraints between EIM BAAs.

DMM provided an analysis of the effectiveness of automated mitigation procedures in the 5-minute market on internal flow based constraints within all BAAs in the combined CAISO and EIM area in its quarterly report for Q2 2017.⁸ Table 1 summarizes results of this analysis. Table 2 summarizes results of similar analysis performed by DMM for flow based constraints in the 15-minute market before and after enhancements implemented in 2016.

Table 1. Comparison of market power mitigation procedures on flow based constraints in 5-minute market

	Accurately predicted	Over predicted	Under predicted
June 2016 - May 1 2017	72%	13%	14%
May 2 - July 31 2017	84%	14%	2%

Table 2. Comparison of market power mitigation procedures on flow based constraints in 15-minute market

	Accurately predicted	Over predicted	Under predicted
January - August 14 2016	64%	26%	10%
January - September 2017	77%	20%	4%

⁷ Department of Market Monitoring of the California Independent System Operator, *Docket Nos.* ER17-2394-000, ER17-2394-000, ER17-2394-000, *Motion to Intervene and Protest* (September 21, 2017).

⁸ *Q2 2017 Report on Market Issues and Performance*, September 25, 2017, Department of Market Monitoring, pp. 67-68. <http://www.caiso.com/Documents/2017SecondQuarterReport-MarketIssuesandPerformance-September2017.pdf>

These analyses are based on several months of data following implementation of these enhancements and confirm that these recent enhancements have greatly decreased the potential for any under-mitigation when flow based constraints with an EIM BAA may be binding. As shown in Table 1, in the 5-minute market, potential under-mitigation during intervals when flow based constraints within BAAs have been binding dropped from 14 percent to less than 2 percent of intervals after implementation of these enhancements. In the 15-minute market, potential under-mitigation occurring during intervals when flow based constraints have been binding dropped from 10 percent to 4 percent of intervals, as shown in Table 2.

In addition, as noted in BHE EIM Participants' filing, the CAISO and each of the BHE Participants have filed reports with the Commission attesting that all applicable constraints had been activated on the PacifiCorp system and that most applicable constraints on the NV Energy Companies' system had been activated.⁹

Thus, the enhancements recently implemented by the CAISO also ensure the effectiveness of market power mitigation when congestion occurs on internal flow based constraints within an EIM BAA.

Reporting requirements

Truckee suggests that "at a minimum, the Commission should direct Berkshire to report again in a year to demonstrate that constraints between EIM BAAs continue to be infrequently binding."¹⁰

⁹ BHE EIM Participants' filing page 36 and reports cited in footnotes 140 and 141.

¹⁰ Truckee, pp. 2.

As previously noted, the frequency of congestion and price separation due to binding constraints are not definitive indicators of a lack of the existence of a potential submarket or market power. When constraints are binding, more detailed analysis is needed to assess if any potential market power exists; is being exercised to potentially raise prices; and, if so, whether this is being effectively mitigated by CAISO market rules and procedures. DMM routinely performs such monitoring, and notifies Commission staff and takes appropriate actions if any uncompetitive behavior or outcomes are detected. DMM also reports on general market competitiveness and performance in its quarterly and annual reports, as well as through other special reports and presentations to stakeholders. The Commission should rely on this process and not impose any special reporting requirements on the BHE EIM Participants' or the DMM as requested by Truckee.

II. Conclusion

Both the BHE EIM Participants and DMM have also provided additional analyses that go beyond analysis of the frequency of historical congestion and price separation and clearly demonstrate the structural competitiveness of the BHE EIM Participants' BAAs and are independent. Recent improvements to CAISO's real-time market power mitigation procedures ensure that bid mitigation procedures are triggered when congestion and price separation actually occurs. These automated procedures mitigate the potential for market power due to constraints within each EIM BAA as well as transfer constraints between EIM BAAs. DMM routinely monitors congestion and market performance, and notifies Commission staff and takes appropriate actions if any uncompetitive behavior or outcomes are detected. Therefore, the Commission should

approve the request of BHE EIM Participants without the special reporting conditions proposed by Truckee.

Respectfully submitted,

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Independent Market Monitor for the California

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Dated: October 6, 2017

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 6th day of October, 2017.

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