

Western Power Trading Forum on the CAISO's System Market Power Analysis
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The Western Power Trading Forum

The Western Power Trading Forum (WPTF) is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability. WPTF supports uniform rules and transparency to facilitate transactions among market participants. The membership of WPTF and the WPTF CAISO Committee responsible for providing these comments include CAISO and EIM entities, load serving entities, energy service providers, scheduling coordinators, generators, power marketers, financial institutions, and public utilities that are active participants in the California market, other regions in the West, and across the country.

Comments

WPTF appreciates the opportunity to submit these comments on the CAISO's System Market Power Analysis discussed with stakeholders on the May 9, 2019 stakeholder call. WPTF appreciates the efforts put in by the CAISO staff to develop a reasonable screening metric that can be used to identify hours under which the day-ahead market may be structurally uncompetitive. As the CAISO moves forward with further refinements to the metric and engages in discussions with stakeholders, it will be key to distinguish between scarcity pricing and the exercise of market power. While WPTF supports protecting the market against the exercise of market power, it is equally as important to ensure prices are sending appropriate signals in order to incent investment, maintenance, or deployment of resource alternatives.

The existence of high price prices in a market interval does not necessarily mean market participants are exercising market power. Scarcity pricing is fundamental to a well-functioning market, and temporary price spikes under stressed system conditions. These periods may be driven by increases in demand, forced generation or transmission outages and the associated increases in price are necessary signals to incentivize efficient operational behaviors and investment decisions. The converse of this is also true, low prices do not mean buyers are exercising market power and periods of low pricing may be driven by transmission outages, need to manage the system for over-generation, and seller's indication of opportunity costs.

Policy implications. The CAISO's robust analysis presents several variations of RSI calculations that provide stakeholders with a reasonable range of potential hours that may have been structurally uncompetitive in 2018. Even under some of the more conservative assumptions (e.g., higher demand scenarios or lower supply conditions), WPTF views the percentage of hours that fail the RSI tests as being minimal and therefore does not warrant opening a stakeholder policy discussion to consider system market power mitigation designs at this time.

That said, the potential expansion of the day-ahead market to the EIM is very likely to change the competitiveness of the system and it seems prudent to continue to test the system for

structural competitiveness using a reasonable metric. WPTF encourages the CAISO to continue refining the screening metric with stakeholders and monitor for any systematic increases. A natural forum to report on updated RSI failures could be within the Market Performance Planning Forum.

Reliability implications. A key finding of the CAISO's recently published 2019 Summer Load and Resources Assessment¹ (Summer Assessment) is the dependence the CAISO grid has on imports and the necessity of attracting price-responsive imports during periods of peak demand. The most recent data published on Resource Adequacy (RA) imports indicates less around 4,500 MW imports are being contracted as RA resources, but the CAISO is relying on at least 9,500 MW (if not more) to maintain grid reliability during CAISO system peak hours.

Over time, the CAISO will only grow more dependent on imports. The report notes, "As the CAISO internal dispatchable generation retire or mothball, the CAISO system will increasingly rely on imports from neighboring balancing authority areas when internal shortfalls of flexible capacity occur." It is imperative that the CAISO ensure prices are sufficiently high when there is scarcity such that imports (that have no obligations to the CAISO) are being incented through pricing. Already there exists a concerning pattern of real-time import prices not reflecting near-scarce and scarce conditions.² Concurrently, in the RA Enhancements initiative, the CAISO is considering significant changes to the rules regarding RA Import qualification. Those rules, which could include unit-specific designations and/or requirements to hold firm transmission, could further reduce the number of counterparties able to, or willing to provide Import RA. This possible reduction in import RA only increases the required quantity of price-responsive bids necessary to meet reliability targets. WPTF therefore believes that the topic of incenting the current levels of imports and, more specifically non-RA imports, must be central to any discussion on market power.

Current RSI Formulation. WPTF generally supports the CAISO's proposed RSI metric, most notably the consideration of input bids rather than the output bids. We agree with the CAISO that using output bids would significantly understate the supply that was made available to the market. WPTF does seek additional clarification and discussion from the CAISO regarding the treatment of virtual bids and demand response resources in the RSI calculations. WPTF agrees with the CAISO that virtual supply should be reflected in the supply side of the screening metric but believes additional discussion would be beneficial. Even though virtual supply bids are not necessarily backed by physical supply they are treated just like physical supply in the day-ahead market and can set the market clearing price. WPTF is unclear if/how virtual demand is being reflected in the RSI calculation and asks for additional clarification. As noted on the call, there could be potential ways to reflect the impact of virtual bids (both supply and demand) in the RSI

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<http://www.caiso.com/Documents/2019SummerLoadsandResourcesAssessment.pdf#search=Summer%20load%20and%20assessment>

² This phenomenon was originally documented by the MSC and is being examined by the CAISO through a price formation [assessment](#).

calculation (e.g., net virtual supply) that may be worth considering. Another option would be for the CAISO to continue providing sensitivities that reflect various supply assumptions.

Finally, WPTF would like the CAISO to confirm if both PDR and RDRR resources that provide bids into the day-ahead market are included in the supply of the RSI calculation or if only PDR resources are included. While the treatment of demand response may be relatively straight forward in the day-ahead calculation, how it is treated along with other demand response programs may need additional consideration.

Additional analysis. As noted in the summary, a well-functioning market should have prices that reflect scarcity and abundance under stressed system conditions. Having more visibility into what the drivers are for each RSI failure may provide a better indication if the failure is due to uncompetitive conditions or possibly just system conditions that would warrant scarcity pricing. WPTF asks that the CAISO provide additional discussion around the main drivers for the RSI failures (e.g., forced generation outage or peak demand) as well as if there are any seasonal or hourly trends associated with the RSI failures. Part of being able to exercise market power is being able to predict when the uncompetitive conditions occur. If the uncompetitive conditions occur, for example, in the same hour every day in one season it would be more concerning than if the RSI failures are sporadically scattered throughout the year.

Lastly, it may be informative to better understand what, if any, system market power screening metrics other ISOs have in place. There may be other ways to capture certain dynamics such as virtual bidding in an RSI-like calculation that may be worth considering.

WPTF thanks the CAISO for consideration of these comments.