

# **Comments of the MSC on the California ISO's MD02 proposals**

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# MSC Recommendations on Market Power Mitigation

- **\$250/MWh damage control bid cap (DCBC)**
  - Adjustable for gas prices
- **Automated Mitigation Procedures (AMP) for the mitigation of local market power**
- **12 month Competitiveness Index**
  - Limits aggregate severity of market power
- **Load Serving Entities (LSEs) responsible for sufficient available capacity (ACAP) to satisfy load obligations**
  - Strongly recommend ISO handle reliability, and LSEs handle capacity adequacy or face consequences
  - ISOs role initially to be informational
  - Unresolved issue of appropriate penalties for ACAP shortfall

# Damage Control Bid Cap

- **Setting price caps creates a trade-off between lower costs and potential supply shortfalls**
- **A price-cap that is set too low will place significant pressure on ISO's imbalance market**
  - Suppliers have little to lose from staying out of market
  - ISO must then choose between out-of-market(OOM) purchases (above cap levels) or curtailment of load
  - OOM purchases seriously dilute impact of the cap
- **'Net-short' position (amount of purchases linked to spot prices) will be smaller than during 1998-2000**
  - Implies lower \$ impact of higher spot prices

# Damage Control Bid Cap

- **A cap significantly lower than \$250/MWh will place serious pressure on ISO imbalance market**
  - Gas index may not keep up with short-term gas price increases
  - Increases importance of unreliable gas price index
  - Not all supply linked to gas prices (diesel, hydro)
  - Recovery of fixed costs could be difficult for many high costs plants at a low price cap
- **These pressures were manageable for the ISO during 98 & 99 when cap was \$250/MWh**
  - Supply situation going forward likely to be at least as favorable as during 98 & 99 because of new capacity and forward contracts

# **Automated Mitigation Procedures**

- **Transmission constraints give some suppliers significant ‘local market power’**
- **Adding more transmission prices (LMP) does not solve this problem**
  - Does not fix fundamental lack of competition.
- **Building our way out of local market power is costly and contentious**
- **Additional price restraints on these suppliers is therefore essential**
  - Comparable with practices in eastern ISOs
  - Price-responsive hourly demand likely the cheapest way to limit local (and all) market power

# Competitiveness Index

- **Problem: setting the ‘right’ DCBC and AMP levels depends upon knowing *how many* hours they will be constraining prices**
- **Solution: also base mitigation upon longer horizon measures of market performance**
  - e.g. 12 month rolling average competitiveness index
- **We strongly support this concept**
- **Such an index should**
  - Be transparent
  - Minimize the chance of a ‘false positive’
  - Use a \$/MWh rather than % mark-up threshold

# Available Capacity Requirements

- **We strongly support the principle that LSEs should be responsible for ensuring adequate supply is available to serve their loads**
  - An ACAP measure that ‘credits’ a wide variety of supply and demand resources will be a valuable tool
- **What penalties should be imposed for failure to acquire adequate supply?**
  - Monthly and/or daily financial penalties?
  - Real-time curtailment or ‘emergency’ prices should be applied to those responsible for the shortage
    - » Otherwise responsible parties would be unfairly punished