

**Comments on FERC Order 831 Compliance Filing**  
**Department of Market Monitoring**  
**June 27, 2018**

The California ISO Department of Market Monitoring (DMM) appreciates the opportunity to comment on the ISO's FERC Order 831 Compliance Filing. The ISO's draft tariff language would allow bids from imports to set market prices at \$2,000/MWh without subjecting these bids to the *ex ante* cost verification process that will be applied to resources within the ISO. DMM recommends that the ISO include import bids in the cost review process and only allow import bids to set prices above \$1,000/MWh which have been cost verified.

Order 831 indicates that the ISO can submit a filing to FERC establishing procedures for reviewing, verifying and mitigating import bids above \$1,000/MWh.

Though it is not required, the Commission would consider proposals by RTOs/ISOs to verify or otherwise review the costs of imports or exports and/or develop additional mitigation provisions for import and export transactions above \$1,000/MWh. Such proposals should be submitted in a separate filing under section 205 of the Federal Power Act. (§ 197).

DMM recommends the ISO make such a filing so that imports bids are subjected to the same cost verification process that will be applied to resources within the ISO. DMM recognizes that verifying import cost may be more difficult than verifying cost for gas and other resources within the ISO system. However, in the event that the ISO determines that import bid prices over \$1,000/MWh cannot be justified by prevailing bilateral market prices and conditions, the ISO should be able to utilize information submitted by suppliers as the basis for reviewing and verifying import bids. The fact that cost verification of imports may be difficult in some cases should not lead to adoption of a market design in which import bids over \$1,000 up to \$2,000/MWh are simply accepted and allowed to set market prices without any review, verification or other form of mitigation.

DMM's recent 2017 annual report notes that "DMM's analysis indicates that the ISO system showed signs of becoming less competitive" and recommends that "the ISO begin to consider various actions that might be taken to reduce the likelihood of conditions in which system market power may exist and to mitigate the impacts of any system market power on market costs and reliability."<sup>1</sup> As shown in that report, the frequency of prices in the 15-minute market at or near the current \$1,000/MWh price cap increased significantly in 2017.<sup>2</sup>

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<sup>1</sup> 2007 Annual Report on Market Issues and Performance, Department of Market Monitoring, June 2018, pp. 22, 151-153, 251. <http://www.caiso.com/Documents/2017AnnualReportonMarketIssuesandPerformance.pdf>

<sup>2</sup> 2017 Annual Report, p. 82. (see figure 3.1)

DMM has also highlighted its concern about potentially uncompetitive conditions at the ISO in a recent presentation to the Market Surveillance Committee.<sup>3</sup> When system conditions are structurally uncompetitive (but no actual scarcity exists), imports suppliers can be pivotal and can set market prices. DMM believes a review of historical bilateral prices will show that prices in the bilateral markets have rarely (if ever) exceeded the ISO's current \$1,000/MWh bid cap.

In addition, as noted in DMM's comments on the recent ISO's imbalance conformance enhancements proposal, the impact of load adjustments made by system operators in the 15-minute market will be magnified by the bid prices of 15-minute dispatchable imports and penalty parameters over \$1,000/MWh under the ISO's current proposal for Order 831 compliance.<sup>4</sup>

DMM also notes that under current market rules import bids accepted by the 15-minute market software can set system prices, even if these imports are not subsequently delivered (e-tagged). Even if the ISDO established a penalty for failure to deliver imports, this would not mitigate the impact that such failures have on market prices.

For the reasons stated above, DMM recommends that the ISO make the needed filing with FERC pursuant to Order 831 to include import bids in the cost review process and only allow import bids to set prices above \$1,000/MWh which have been cost verified.

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<sup>3</sup> *System market power*, Presentation by Amelia Blanke, Department of Market Monitoring, Market Surveillance Committee Meeting, June 7, 2018. [http://www.caiso.com/Documents/Presentation-SystemMarketPower-June7\\_2018.pdf](http://www.caiso.com/Documents/Presentation-SystemMarketPower-June7_2018.pdf)

<sup>4</sup> Memorandum to ISO Board of Governors, Re: Department of Market Monitoring Comments on Imbalance Conformance Enhancements, Eric Hildebrandt, May 9, 2018, pp.1 and 5. [http://www.caiso.com/Documents/Decision\\_ImbalanceConformanceEnhancementsProposal-DMMComments-May2018.pdf](http://www.caiso.com/Documents/Decision_ImbalanceConformanceEnhancementsProposal-DMMComments-May2018.pdf)