



Department of Energy

Bonneville Power Administration
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POWER SERVICES

March 22, 2019

In reply refer to: PT-5

Mr. David Olsen, Chair
Board of Governors
California Independent System Operator Corporation
P.O. Box 639014
Folsom, CA 95763-9014

Re: Local Market Power Mitigation Enhancements Stakeholder Process

Dear Chair Olsen and Members of the Board:

I am writing to express Bonneville Power Administration's ("Bonneville") strong support for the CAISO's Local Market Power Mitigation Enhancements, Draft Final Proposal. Bonneville believes the enhancements introduced in the Draft Final Proposal appropriately balance the necessity of protecting consumers from the exercise of market power and the goal of encouraging efficient market outcomes through robust market participation.

Bonneville is a federal power marketing administration within the U.S. Department of Energy that markets electric power from 31 federal hydroelectric projects and some non-federal projects in the Pacific Northwest. Bonneville also operates 15,000 miles of high voltage transmission that interconnects most of the other transmission systems in the Northwest with Canada and California. Bonneville is obligated by statute to serve Northwest municipalities, public utility districts, cooperatives and then other regional entities prior to selling power out of the region.

Bonneville is in the process of assessing how and under what conditions Bonneville – and by extension, other NW parties – can successfully integrate potential Western Energy Imbalance Market ("EIM") participation with its existing participation in long-established markets, all while continuing to honor Bonneville's statutory, regulatory, and contractual obligations. As the Draft Final Proposal correctly acknowledges, operations of the hydroelectric systems of the northwest are complex. For Bonneville, it requires coordination across multiple agencies and must accommodate large degrees of uncertainty in many key determinants of our operations – including weather, streamflow, loads, operations to support fish migration and spawning, flood control, and navigation.

Bonneville utilizes many tools to meet its operational objectives. One of these tools is the wholesale market. Bonneville is an active participant in western bilateral markets and in the CAISO using its intertie bidding framework. In both of these market constructs, Bonneville uses its bids and offers to reflect its estimate of the economic value of energy. These estimates depend crucially on Bonneville's existing operational and contractual obligations. EIM participation represents a small but significant departure from this model, since bids and offers from participants are subject to the market power mitigation procedures of the EIM, wherein bids and offers may be automatically over-written with a default energy bid. This action of over-writing bids to a pre-calculated value breaks the intended linkage between the market participant's bid and its estimate of its cost. The potential consequence of this procedure, and primary concern for Bonneville, is that it may prematurely deplete energy limited hydro resources. In the short term, this raises reliability concerns. In the long term, it may reduce market participation.

The Draft Final Proposal introduces a suite of enhancements that work in concert to temper Bonneville's concerns over unintended resource depletion. Perhaps most importantly, CAISO collaborated extensively with numerous stakeholders to develop a new default energy bid for hydro resources. Bonneville believes that, despite distilling a very complex problem to a relatively simple formula, the default energy bid resulting from this strong collaboration will produce satisfactory outcomes for both market participants and consumers in the vast majority of conditions. Where this new default energy bid proves insufficient, the other enhancements in the Draft Final Proposal – elimination of flow reversal; election of export limitations in mitigated intervals; and elimination of balance-of-hour mitigation – will help limit the amount of energy that is potentially exposed to unintended depletion. For these reasons, Bonneville encourages the ISO Board of Governors to adopt the proposal in its current form.

Sincerely,



Suzanne B. Cooper
Vice President, Bulk Marketing
Bonneville Power Administration

cc:

Mr. Ashutosh Bhagwat
Mr. Severin Borenstein
Ms. Angelina Galiteva
Ms. Mary Leslie and Mr. David Olsen