

May 20, 2019

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON,
PASADENA, AND RIVERSIDE, CALIFORNIA ON THE ANALYSIS OF
STRUCTURAL SYSTEM-LEVEL COMPETITIVENESS
IN THE CAISO BALANCING AUTHORITY AREA**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their comments on the April 29, 2019 Analysis of Structural System-Level Competitiveness in the CAISO Balancing Authority Area (the "Analysis"):

The ISO initiated the Analysis as a result of concerns raised in the CAISO Department of Market Monitoring ("DMM") annual report for 2017 identifying the potential for increased ability of energy suppliers to exercise market power in the day-ahead market at the system level. The ISO's Analysis presents alternative approaches for evaluating the potential for the exercise of system level market power and indicates that the risk is lower than identified by the DMM. The Six Cities do not agree with the methodology preferred in the Analysis, particularly with respect to the treatment of virtual supply bids, and believe that the ISO's preferred approach understates the potential for exercise of market power at the system level.

The scenario in the Analysis preferred by the ISO includes virtual supply bids in the inputs for available supply based on the assertion (Analysis at page 4) that virtual supply "represents supply available to the day-ahead market that the market anticipates will either be replaced by additional physical supply in real-time or not needed." That assertion, however, does not necessarily apply to all virtual supply bids, which, by definition, have no tie to physical supply. For example, virtual supply bids that are matched by virtual demand bids provide no additional supply to the market, virtual or otherwise. The Analysis does not include virtual demand bids as a demand input, and the inconsistent treatment of virtual supply and virtual demand bids plainly overstates the level of virtual supply that the Analysis considers to be available. Virtual supply bids do not represent physical resources, and, as observed by Dr. Hildebrandt during the May 6, 2019 web conference on the Analysis, they are infinite in volume. Moreover, virtual supply bids are not subject to price mitigation. As recognized at page 14 of the Analysis, the ISO's sensitivity analyses demonstrate that input assumptions heavily influence the outcomes of the residual supply index tests. The inclusion of virtual supply bids inflates the indicated residual supply index, as acknowledged at page 17 of the Analysis, and therefore understates the potential for the exercise of market power at the system level.

With regard to other elements of the Analysis, the Six Cities agree with the use of input bids for supply (but only for physical supply, for the reasons discussed above). The Six Cities support the inclusion of transmission losses in demand. The assessment of residual supply

should be based on removal of the three most pivotal suppliers (as opposed to one or two), consistent with the methodology applied in the ISO's Local Market Power Mitigation process.

Submitted by,
Bonnie S. Blair
Thompson Coburn LLP
1909 K Street N.W., Suite 600
Washington, D.C. 20006-1167
bblair@thompsoncoburn.com
202-585-6905

Attorney for the Cities of Anaheim, Azusa,
Banning, Colton, Pasadena, and Riverside,
California