



California ISO

Briefing on system market power mitigation

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At July Board meeting, Management committed to briefing the Board on its approach for addressing system-level market power.

- Analyses showed system-level market power in the ISO balancing authority area may exist in limited periods
 - Supply conditions expected to tighten
- Management subsequently worked with stakeholders and the Market Surveillance Committee to develop its approach
 - Developed high-level design proposal to serve as basis for discussion and provide design principles
 - Market Surveillance Committee provided written opinion on proposed approach

Management considered several factors in developing its approach:

- Not deterring import supply
- Leveraging existing local market power mitigation measures to the extent possible
- Implementing measures relatively quickly
- Accounting for other upcoming ISO market changes

Management developed a high-level mitigation design that avoids potential adverse impacts.

- Potential adverse impacts include:
 - Inefficiencies resulting from inaccurate mitigated bid prices
 - Deterring import supply
 - Diminished incentives to forward contract
- Approach needs to be able to be timely implemented

Management will be initiating a stakeholder process to develop a system-level market power mitigation design.

- Planning phased approach
- First phase will implement system-level market power mitigation in the real-time market
- Proposed approach is similar to balancing authority area level mitigation for non-ISO balancing authority areas in EIM
- Demand bids and virtual bids provide level of market power protection in the day-ahead market
- Market power mitigation for day-ahead market involves more complicated design and implementation
- Not proposing to apply mitigation to import bids or to change EIM mitigation

Second phase will consider more comprehensive measures:

- Approach for day-ahead market
 - Needs to be consistent with extended day-ahead market design
- Improvements to market power mitigation tests, including for the broader EIM
 - Test competitiveness by groups of BAAs rather than individually
 - Consider alternative tests for triggering mitigation

Stakeholders are divided on the need for system-level market power mitigation.

- Suppliers maintain ISO analyses have not shown that there is system-level market power
 - They suggest ISO should instead focus on other important market enhancements
 - Nevertheless, they support proposed approach if we move forward
- California investor owned utilities and CPUC maintain ISO implementing system-level market power mitigation is critically important

Next Steps

- Post system-level market power mitigation straw proposal next month
- Early 2020 – decision by ISO Board of Governors