



**COMMENTS OF NV ENERGY  
LOCAL MARKET POWER MITIGATION ENHANCEMENTS  
WORKING GROUP MEETING  
DATED OCTOBER 10, 2018  
CAISO STAKEHOLDER PROCESS**

**October 17<sup>th</sup>, 2018**

NV Energy appreciates the opportunity to comment on the CAISO working group meeting. There was robust discussion around the updated market design principle and the local market power mitigation proposals that highlighted many areas of concern. While NV Energy appreciates the need for improvements and additional optionality with respect to the current Default Energy Bid (DEB) program, NV Energy shares many of the concerns as explained in more detail below.

**I. Updated Market Design Principle**

The CAISO proposed the following updated market design principle as a basis for market design in this stakeholder initiative:

“EIM is a voluntary market but the design assumes sharing of ramping capability. In cases of mitigation involving EIM transfers to another balancing authority area, supply should not be forced to sell energy at a mitigated price beyond its ramping requirement used for the resource sufficiency test. The use of mitigated bids should not result in additional economic displacement of other supply.”<sup>1</sup>

Market design principles lay the foundation for current and future market designs. Therefore, it is very important that these principles align with the intentions and past principles that have created the EIM and CAISO Mitigation Measures. NV Energy does not support this updated market design principle in its entirety. The EIM was designed to share energy imbalances, which is inclusive of ramping capability, but is not limited to ramping capability. It is very important to remember that the design to share energy imbalances includes load imbalances, and is not restricted to supply. Additionally, the EIM was constructed to be a part of the real-time market and this proposed principle further separates the EIM from the real-time market construct. Essentially, it would allow the market to freeze when mitigation occurs or stated another way allows a participant to pull out of the market when they do not like the mitigation outcome. The voluntary nature of the EIM market should not be taken to this extreme interpretation. The CAISO tariff section 39 states the intent of CAISO mitigation measures:

“39.1 Intent of CAISO Mitigation Measures; These CAISO market power mitigation measures ("Mitigation Measures") are intended to provide the means for the CAISO to mitigate the market effects of any conduct that would substantially distort competitive outcomes in the CAISO Markets while avoiding unnecessary interference with competitive price signals.”<sup>2</sup>



The updated principle above does not align with the intent of the CAISO Mitigation Measures. The updated design principle would prevent the market optimization from occurring above a certain amount during intervals where mitigation is occurring. This could and at times would distort competitive outcomes from occurring in the EIM which is a CAISO market. Therefore, this design principle could result in EIM market designs that extends the separation from the CAISO real-time market. Additionally, this principle completely ignores the fact that Balancing Authority Area load may not be within the Balancing Authority Areas flexible ramping requirements and that, absent a self-supply, the load does not have a choice to refuse a price to purchase energy in this market. This principle also ignores the fact that some of the EIM Balancing Authority Areas have third party loads within their territory. The current local market power mitigation regime plays an important role in ensuring that these third party customers are protected from non-competitive outcomes. There is no reason to restrict the market optimization, even during times of mitigation, as long as all resources are allowed to reflect actual and lost opportunity costs in their DEBs. In addition, this new design principle does not comport with the potential future of an extended Day-Ahead Market.

There are two issues: (1) under what conditions should application of the DEB be triggered and (2) if those conditions materialize, what is the appropriate DEB. While there may be a specific situation in which an EIM Entity does not have load in its Balancing Authority Area exposed to EIM pricing and may warrant a different outcome as to when the DEB is triggered, the DEB also plays an important role in supporting the application of market-based rate authority throughout the EIM footprint. Care must be taken so that the cure does not create more issues than it is attempting to remedy.

## **II. Adder to the Competitive LMP to Prevent Flow Reversal**

During the workshop, CAISO stated that they are unsure of what the adder will be or if it will change depending on the situation to prevent flow reversal. NV Energy does not support this proposal, in its current form, because it is unclear if it will even be possible for the adder to be an unsubstantial amount. This adder could inflate the price in a mitigated EIM region, which is not the intent of the CAISO mitigation measures to replicate competitive outcomes. Regardless of this fact, this proposed issue shouldn't matter if the DEBs reflect the actual and lost opportunity costs. An accurate DEB should reduce the occurrences of this issue and the resources supplying the energy would be compensated for energy served plus lost opportunity costs. Moreover, there is no reason to overcomplicate the security constrained economic dispatch creating unintended outcomes when an accurate default energy bid solution should eliminate any issues.

## **III. Economic Displacement During Mitigation**

CAISO proposed a new proposal to lock transfer limits to the greater of the previous export or the upward flexible ramp requirement. NV Energy does not support this proposal for the following reasons. First, there should be no reason to restrict economic displacement during



mitigation, if the DEBs accurately reflect the marginal costs plus the lost opportunity. Mitigation can be thought of as a product for the load to refuse a price when it is not competitive. Therefore, it is concerning that the CAISO automatically chooses an option to limit transfer limits as an initial policy solution. This should never be the first approach to any market issue, unless there is some reliability reason for doing so. Locking the transfer limits results in more frequent congestion which creates price separation amongst Balancing Authority Areas. This congestion could have an impact on shadow prices within that Balancing Authority Area, resulting in higher charges for these services to the load. For instance, a locked transfer may result in a higher shadow price for the flexible ramping product, which is another product that impacts the loads settlements. Is it really appropriate to penalize load when the supplier is being mitigated? Furthermore, as seen in the current flexible ramp test, locking the transfers presents operational issues, limiting ramping solutions. If the DEB is triggered under appropriate conditions and is priced at a just and reasonable level, there should be no need to lock the transfers.

#### **IV. Use Limited EIM DEB**

NV Energy is not opposed to the concept of a Use Limited EIM DEB. The above market issues should be corrected if the DEB accurately reflects the resources marginal costs plus its lost opportunity. However, NV Energy is not entirely sure it is appropriate to compare this lost opportunity to the bilateral market. The bilateral market allows the buyer to reject offers, which is not possible in the security constrained economic dispatch. Therefore, additional analysis is needed in this section to determine what prices would be appropriate for this lost opportunity cost.

#### **V. Current Rules that Prevent Accurate Use of Competitive LMP**

CAISO proposes to eliminate three mitigation rules to provide an accurate use of the competitive LMP. NV Energy would like further discussion about these rules that have been proposed for elimination. Could CAISO provide the reasons these rules exist today? Market participants need to weigh these reasons with the new explanation as to why these rules should be eliminated. It is important to thoroughly vet each rule change to prevent any uneconomic market outcomes during mitigation.

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<sup>1</sup> CAISO. October 11, 2018. "Local Market Power Mitigation Enhancements Issue Paper/Straw Proposal Working Group Presentation." [http://www.caiso.com/Documents/Presentation-LocalMarketPowerMitigationEnhancements-WorkingGroup-Oct10\\_2018.pdf](http://www.caiso.com/Documents/Presentation-LocalMarketPowerMitigationEnhancements-WorkingGroup-Oct10_2018.pdf).

<sup>2</sup> CAISO. September 24, 2018. "California Independent System Operator Corporation Fifth Replacement FERC Electric Tariff: Section 39." <http://www.caiso.com/Documents/ConformedTariff-asof-Sep24-2018.pdf>.