

Stakeholder Comments Template

System Market Power Mitigation

Submitted by	Organization	Date Submitted
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Please provide your organization's general comments on the following issues and answers to specific requests.

1. Background and scope

PPC appreciates the opportunity to provide feedback on CAISO's System Market Power Mitigation Straw Proposal. PPC represents the interests of nearly 100 public and consumer owned utilities in the Northwest. PPC's members are interested in the potential development of this policy from several perspectives: as purchasers of preference power and transmission services from BPA (which is evaluating future participation in the EIM), as load serving entities in the current and/or future EIM footprint, and as possible and planned EIM participants themselves.

As stated in previously submitted comments, PPC appreciates the thoughtful approach CAISO has taken to exploring a system market power mitigation framework and the analysis of potential outcomes of different approaches to mitigating supply offers. Analysis to date demonstrates that while there may have been limited potential for the exercise of market power at the system level, prices and costs indicate that market power has not been exploited very frequently or aggressively. Given this context, PPC continues to question whether this initiative is a good use of CAISO time.

Should CAISO decide to proceed with implementing system market mitigation at this time, any system market power test that is developed needs to be carefully designed such that it does not deter voluntary economic import offers through unnecessary mitigation. Unnecessary mitigation could deter voluntary imports which would exacerbate system market power concerns and discourage supply in times when the CAISO grid faces tight conditions.

PPC suggests the scope of this initiative be expanded to include an examination of modifications to CAISO's scarcity pricing. During the December 16th meeting, several stakeholders raised concerns about how out-of-market actions may be artificially suppressing the triggering of CAISO's scarcity pricing. The suppression of prices through

these out-of-market actions distorts price signals and does not align with CAISO's proposed principle that, "Energy prices should reflect the marginal cost of the highest cost resource used to meet demand."

2. Phased approach

PPC agrees with the proposal for a phased approach and believes it is appropriate to only apply a system market power mitigation process to the real-time market at this time. CAISO staff and stakeholders have discussed differences between the real time and day ahead market that leave the real-time market more susceptible to the exercise of market power. Implementing a system market power test first in the real time market will allow CAISO to monitor the framework's effectiveness and will allow it to determine whether it is necessary to expand to the day-ahead market. This is appropriate given the potential for unnecessary mitigation to deter voluntary economic imports.

PPC believes beginning a day-ahead system market power phase at this time is premature. Developing a day-ahead system market power mitigation would require a much greater degree of technical and policy discussion, including coordination with EDAM and DAME. This could entail a significant amount of work that may not be necessary. As described by CAISO staff, if the economics of the interactions between the day-ahead market and real-time may make it unnecessary to apply a mitigation framework to the day-ahead market.

3. Applying import-constrained trigger

PPC agrees with triggering the pivotal supplier test only when major competitive interties into the CAISO are binding. When all major interties into CAISO are binding, there is a high likelihood that demand internal to CAISO would lose access to a competitive west-wide supply of generation. This creates the potential for system market power. However, triggering the pivotal supplier test when only Malin, Palo Verde and Nob scheduling points are simultaneously binding may overestimate the frequency in which CAISO is cut off from competitive west-wide supply. The system market power straw proposal shows that about 60% of import offers are associated with those three paths. CAISO should consider expanding the number of interties included in the trigger.

There also may be merit in using a dynamic approach to decide which paths to include when testing whether CAISO is import-constrained. For example, if there are times in the future where BANC makes COTP available to the CAISO, this would likely be another competitive path into CAISO that should be included in the test.

PPC does not support basing the import-constraint trigger on whether CAISO has exhausted offers at an intertie constraint. This alternative does not represent the amount of imports that may be available given the proper price signal. Additionally, as pointed out by CAISO, this may be easily circumvented by submitting bids at the offer cap.

4. Pivotal Supplier Test

5. Applying mitigation to internal supply offers

PPC strongly agrees with staff's assessment that only applying mitigation to internal supply offers is appropriate. Mitigating import offers would be inappropriate and ineffective in eliminating the opportunity to exercise market power. CAISO staff has acknowledged that it may be appropriate to mitigate import offers if the broader WECC is uncompetitive and the import suppliers are pivotal suppliers to WECC. However, to date, PPC has seen no evidence that the broader WECC is uncompetitive and that CAISO import suppliers are pivotal in setting prices in WECC. Even under circumstances of an uncompetitive WECC, mitigating import offers would lead to detrimental outcomes to load in the CAISO. Entities that make voluntary offers at CAISO interties may choose to sell into other western markets when they anticipate mitigation. This would decrease imports to CAISO (and thus supply), raise energy prices in CAISO and exacerbate supplier concentration within CAISO. Mitigating a broader uncompetitive area would also require information that the CAISO does not have – plus, it is the purview of FERC, not the CAISO.

6. Determining competitive LMP

PPC believes that additional discussion is needed to determine a competitive locational marginal price in intervals in which the CAISO is found uncompetitive. During the stakeholder meeting on December 16, stakeholders raised ideas such as using the highest priced exceptional dispatch or the LMP of a competitive BAA as a new competitive LMP. PPC believes more exploration of alternative competitive LMP formulations is needed.

7. Additional comments

PPC appreciates the opportunity to provide comments on the CAISO's System-Level Market Power Mitigation Initiative Straw Proposal.