

Comments of Seattle City Light on CAISO Local Market Power Mitigation Enhancements October 10, 2018 Working Group

Submitted by	Company	Date Submitted
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Seattle City Light (Seattle) is the tenth-largest consumer owned electric utility in the nation, providing electrical service to more than 415,000 residential, commercial, and industrial customers in the City of Seattle, Washington and six adjacent cities. Seattle owns and operates hydroelectric resources with approximately 2,000 MW of flexible, fast-ramping capacity. We regularly transact in the wholesale energy and transmission markets. Seattle executed an Implementation Agreement with the California Independent System Operator (CAISO) and intends to begin participating in the Energy Imbalance Market (EIM) in April 2020.

Seattle appreciates the opportunity to provide supplemental comments on CAISO’s Local Market Power Mitigation Enhancements October 10, 2018 working group meeting. The meeting was a valuable opportunity for stakeholders to flesh out the technical details of CAISO’s straw proposal and to consider new analyses presented by Powerex. The meeting also surfaced some key discussion themes that warrant additional thought and analysis, such as what bearing the voluntary nature of EIM has on market power mitigation, whether CAISO’s mitigation framework enhancements could impact EIM entities’ market-based rate authority and how to ensure any mitigation enhancements make sense both today and in the context of an extended day-ahead market. These questions are significant and should be thoroughly discussed and vetted before market design changes move forward. Seattle encourages CAISO to make time for this important work, and would support an additional technical meeting to work through these topics.

EIM Use-Limited Default Energy Bid

Seattle supports the additional analysis put forth by Powerex that looked at historical index price data to better understand the impact of various adders on resources with different storage horizons and explores the use of a fixed \$/MWh floor. We believe this analysis is a good starting point to targeting a DEB formula that works for all resources and their unique storage horizons.

Powerex's analysis highlighted that an adder of 10% is overly simplistic and often insufficient. It also demonstrated that resources with different storage horizons will require different adders in order to ensure the efficient use of that resource. The CAISO-proposed DEB formula uses the single best month in the multi-month storage horizon, which allows a resource with multiple months of storage the opportunity to choose the highest priced month. The DEB formula does not provide the same flexibility for resources with short-term storage to reflect differences in day-ahead prices and real-time prices. For this reason, Seattle agrees with Powerex's conclusions that it is likely that resources with short-term storage will require a higher adder to balance the risk that DEBs are more frequently too low, resulting in inefficient dispatch. Seattle believes the overall goal should be setting the adder or adder/\$/MWh floor combination, at a level that ensures the DEB would rarely fall below what would have been the offer price had the resource not been mitigated.

Seattle believes additional analysis by CAISO that advances what Powerex presented would be helpful, such as analyzing further storage horizons. Seattle also believes it is essential to define "storage" for purposes of this initiative. For example, a resource's storage horizon that is based on the total capacity of a reservoir would likely result in a different answer than that based on residual energy supply after native load obligations, constraints, etc. A discussion of whether a resource's storage horizon should be updated within a given time-period is also warranted. For example, for a resource with a residual energy supply that varies dramatically by season, a storage horizon that is permanently fixed may not make sense.

With regard to the reference level adjustment for EIM use-limited resources, Seattle appreciates CAISO's intent to recognize that real-time and super-peak prices are often substantially higher than day-ahead prices. But given the frequency that this occurs, we are concerned that it may be unworkable for EIM entities to constantly be requesting one-time reference level adjustments to reflect real-time prices that are higher than day-ahead or monthly forward prices. We think a more effective way to address this issue is through the use of an adder in the DEB formula that is targeted to the storage horizon of the resource.

Mitigation Issues

Flow Reversal

Seattle supports CAISO's efforts to address inaccurate triggering and misapplication of mitigation. Seattle supports eliminating rules that extend mitigation to future intervals or market runs and calculating the competitive LMP independently for each interval. This aspect of the proposal has broad stakeholder support and appears to address the issue of mitigation extending to intervals that have no potential for market power and "flow reversal" that results in a BAA reversing from a net importer to a net exporter.

In order to address concerns that dispatch order changes could occur, CAISO is proposing to implement a nominal adder to the mitigated bid calculation. The discussion at the working group made clear that there may be some undesirable, unintended consequences associated with this aspect of CAISO's proposal. For example, as WPTF pointed out, the adder could impact LMP's if a resource with the adder reflected in its bid becomes the marginal resource.

Seattle recommends that CAISO further analyze the potential impact to prices/price signals of the LMP adder.

Seattle believes there is merit in the idea shared at the working to group to consider a phased approach to implementing the proposed solutions, where eliminating the “extension of mitigation” rules and calculating the competitive LMP independently would occur in phase one. Depending how effective these changes were in addressing flow reversal, a second phase could consider other solutions such as the competitive LMP adder. To this end, Seattle continues to request any data related to the prevalence of flow-reversal in the EIM currently. This data will be helpful as baseline for further analysis that explores the effectiveness of proposed solutions for flow reversal. At the working group, DMM indicated that it had conducted a preliminary analysis of flow reversal occurrence in the EIM for Powerex and other EIM entities. Seattle requests that this data be shared in the CAISO revised straw proposal, or alternatively, for CAISO to provide its own analysis.

Economic Displacement

Seattle agrees with the problem statement articulated by CAISO with regard to economic displacement: mitigated bids should not result in exports that increase or imports that decrease beyond quantities necessary to prevent the exercise of market power within the import constrained bubble of two more EIM BAAs. The discussion of economic displacement and any proposed solutions appears to hinge on the bigger question raised at the working group of what bearing the voluntary nature of the EIM has on mitigation. For example, if the voluntary nature of EIM is a determination in the mitigation framework, should EIM entities be forced to provide energy at a mitigated bid price at all? Seattle believes further discussion and analysis of this topic is warranted and will ultimately help target the best solution to economic displacement.

Seattle appreciates the opportunity to provide comments. If you have any questions regarding these comments, please contact Lea Fisher at 206-386-4546.