

**COMMENTS OF SELECT EIM ENTITIES¹ ON THE CAISO'S
SYSTEM MARKET POWER MITIGATION
DRAFT FINAL PROPOSAL
July 14, 2020**

The Commenters appreciate the opportunity to comment on the CAISO's System Market Power Mitigation Draft Final Proposal (Draft Final Proposal) and are generally supportive of the CAISO's proposed changes.

Pivotal Supplier Test Trigger

The CAISO's previous test trigger proposal failed to recognize large volumes of competitive supply available to CAISO at the interties, through the intertie bidding framework, by focusing exclusively on EIM transmission as a measure of whether the CAISO BAA is import constrained. Under the latest proposal, the pivotal supplier test will still trigger when the CAISO is deemed to be cut off from external supply, but the CAISO has introduced a new set of criteria that would measure that constraint in a way that more accurately captures whether the CAISO BAA itself is competitive. Rather than focusing exclusively on whether any other BAA is export constrained in the EIM (which the Commenters have maintained would only result in a higher likelihood of the test triggering independent of whether it was even feasible for an entity to exercise market power), the CAISO's draft final proposal establishes a more comprehensive set of criteria that would limit the trigger to when conditions indicate system market power could actually exist.

The Commenters support this alternative and share the CAISO's view that it would be more appropriate to trigger a system-level pivotal supplier test when the CAISO BAA's marginal energy price is: 1) greater than \$100/MWh; 2) Greater than the highest day-ahead bilateral electrical trading hub index price plus 10 percent; 3) Greater than a CAISO proxy cost calculation of a hypothetical gas-fired peaker based on current gas costs plus 10 percent, and 4) the highest marginal energy cost in the EIM. The Commenters agree that the combination of these additional triggers better reflects the CAISO's inability to access sufficient external supply. However, the Commenters also recognize that it is possible that real-time bilateral prices may rise relative to day-ahead prices, and as such the threshold prices that the CAISO has proposed may no longer be relevant. The Commenters would also like to suggest that the day-ahead bilateral electric trading hub index price be adjusted for the impacts of having no carbon price included. In addition, the 10% adder is too low to reflect typical real time prices and should be much higher, somewhere between 50 and 100%. The CAISO acknowledged this possibility at the June 24th stakeholder meeting and indicated that should conditions change in the future to the point where the threshold prices are no longer appropriate, it is committed to working with stakeholders through that process. The Commenters support this commitment and encourage the CAISO to provide additional detail regarding what that process may look like.

Determining competitive LMP

The Commenters strongly support the CAISO's proposal to calculate the system-level competitive LMP to be as high as prevailing bilateral prices in the broader western interconnection and that the LMP be

¹ These comments are submitted on behalf of the following EIM Entities: Arizona Public Service, Avista, Bonneville Power Administration, Idaho Power, Portland General Electric Company, Powerex, Puget Sound Energy, Seattle City Light, and Tacoma Power (the "Commenters").

calculated in a manner similar to the components used for the system-level pivotal supplier test trigger. As the CAISO and the Market Surveillance Committee have repeatedly highlighted, there is no evidence that the bilateral market in the broader western interconnection is uncompetitive. As such, it's entirely appropriate to assume that those day ahead price indices reflect reasonable and competitive prices and the CAISO's previous proposal to mitigate to a LMP based only on the price in the EIM BAA(s) that are experiencing export congestion (and without consideration of prevailing western bilateral prices) would likely result in dissuading imports and suppressing CAISO market prices.

Scarcity Pricing

As the CAISO has noted, the issue of scarcity pricing is not unique to the system market power mitigation initiative and has been raised in multiple stakeholder initiatives. While the Commenters support the CAISO's decision to explore scarcity pricing as part of a formal stakeholder process, however, our preference would be for the CAISO to evaluate scarcity and system market power mitigation in tandem, as part of the CAISO market, rather than separately as part of the EDAM initiative. The Commenters view scarcity and system market power mitigation as intrinsically linked. For instance, system conditions can change in real time, resulting in significant price shifts from the day-ahead market. As such, a parameter like the shaped bilateral index may no longer be relevant because the real-time external bilateral prices have risen while the CAISO BAA prices have been mitigated below what would be necessary to attract external supply.

Initiative Scope

As noted on the stakeholder call, the scope of the initiative is intended to address system market power concerns in the CAISO BAA. Despite the CAISO's acknowledgement that it will be reviewing more comprehensive EIM area system market power changes within the EDAM initiative, some stakeholders have continued to question the CAISO's decision to "limit" the scope of the proposal. The Commenters maintain, however, that the broad application of the CAISO's previous proposal carried a greater potential for providing protection to entities in the CAISO BAA at the risk of more frequently intervening in the market, including during competitive conditions in the CAISO markets. The CAISO's draft final proposal avoids this potential by more accurately aligning the scope of the proposal and ensuring mitigation is only applied when the opportunity for CAISO system market power is plausible and the CAISO BAA is truly constrained. If consensus cannot be reached on these points and the CAISO decides it has become necessary to pursue a mitigation proposal that has a broader applicability, then the Commenters strongly encourage the CAISO to re-consider a thorough review of the conduct and impact approaches that are used in others markets to inform the best path forward.