

**COMMENTS OF SELECT EIM ENTITIES¹ ON THE CAISO'S
SYSTEM MARKET POWER MITIGATION
REVISED STRAW PROPOSAL
May 4, 2020**

The Commenters recognize that market power mitigation is an important element of a well-functioning and competitive marketplace and appreciate the opportunity to provide comments on this initiative. The broad application of a new CAISO system market power mitigation framework, if not carefully designed, has the potential to result in inefficiently low prices that can harm entities (and ratepayers) in other regions - as most, if not all, other regions are net sellers in CAISO's markets during hours when the CAISO BAA is importing. The revised proposal may achieve the objective of providing protection to entities in the CAISO BAA from the potential for system market power, but it would do so at the risk of more frequently intervening in the market, including during competitive conditions in the CAISO markets. The Commenters emphasize the importance of developing an accurate trigger for CAISO system market power testing to ensure mitigation is only applied when the opportunity for CAISO system market power actually exists – and offers are only mitigated to appropriate price levels – in order to avoid discouraging supply participation in times of peak CAISO BAA demand, or, in sending inaccurate price signals to demand and supply (possibly resulting in reliability concerns for the CAISO BAA).

Under the new proposal, CAISO will rely on EIM congestion to measure whether the CAISO BAA is import constrained. This modified approach, if adopted, would introduce significant risk that CAISO market prices would be mitigated – when the CAISO BAA is importing and other regions are exporting – below the levels needed to compete for external supply when system conditions are tight and prices in other markets are elevated.

It is the Commenters' view that such a test could trigger as a result of EIM BAAs not having export transmission to the inter-tie locations where EIM transfers occur with the CAISO BAA. In this scenario it is possible that the CAISO BAA may not be import constrained and could still access supply from inter-tie import bids, including at the same tie locations where the EIM transfers occur with the CAISO BAA. For this reason, we recommend considering a hybrid approach to the pivotal supplier test trigger that incorporates both the initial design proposal on the inter-tie constraints of Malin, NOB, and Palo Verde along with a higher Power Balance Constraint (PBC) shadow price in the CAISO BAA. In this hybrid of the two proposals both conditions must exist before the three pivotal supplier test is triggered: the inter-tie locations must be constrained into the CAISO BAA and the CAISO PBC shadow price must be elevated above the non-CAISO BAA grouped EIM footprint.

Pivotal Supplier Test Trigger

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").

The CAISO’s original proposal appeared to be designed to address potentially uncompetitive conditions, should they arise, while trying to ensure that market prices would not be prevented from appropriately rising, as necessary, to compete with external bilateral markets in attracting external supply to the CAISO BAA. This approach was supported by the MSC, which stated in its final opinion that “[m]itigation of California generation in the absence of import constraints can be justified only under an assumption that the Western Electricity Coordinating Council area as a whole is structurally uncompetitive at times, and we have not seen evidence supporting such an assumption.”²

CAISO has introduced a new proposal to focus on EIM transmission as a measure of whether the CAISO is import constrained. This revised approach is flawed as it would fail to recognize the substantially larger volumes of competitive supply that have historically been available to CAISO at the interties, through the intertie bidding framework. For example, CAISO connects to the Pacific Northwest with close to 5,000 MW of import capability at COB and NOB, and only approximately 500MW (or 10%) of that is in the EIM. This proposal suggests that once that limited EIM transfer capability is used – and regardless of the 4,000+ MW of hourly transfer capability still available to the CAISO BAA outside the EIM – mitigation may be triggered in the CAISO BAA.

In addition, relying on congestion pricing in EIM BAAs means that rather than measuring whether the CAISO BAA itself is import constrained, this approach will effectively measure whether any other BAA is export constrained in the EIM. Even a single BAA that is in over-supply conditions (e.g., surplus hydro in the NW during spring) and congested in the export direction will trigger a three pivotal supplier test in the CAISO BAA. It is for these reasons we believe a hybrid approach of the original proposal and the most recent proposal should be considered.

In contrast to the roughly 2% of hours in 2018 that were originally identified as potentially uncompetitive, CAISO’s new proposal points out that the CAISO would be considered “import constrained” under this approach in 28% of all FMM intervals in 2019. Furthermore, initial analysis by the EIM Entities suggests the majority of these intervals are likely to occur during the morning and evening peak hours when EIM Entities are generally exporting and the CAISO BAA is generally importing.

The Commenters recognize that it is unlikely that CAISO system market power mitigation would be applied in all intervals in which the CAISO BAA is deemed import constrained and look forward to further analysis by CAISO of how often mitigation would have actually applied in the past, and the magnitude of the price difference to the next tier of supply that would have set the price in the mitigated intervals. While informative, such a historical analysis is not necessarily indicative of how often mitigation may be triggered in the future. Evaluating whether the CAISO BAA is import constrained is a foundational element of the proposal that must be addressed accurately to avoid the potential for over-mitigation and other unintended consequences.

² http://www.aiso.com/Documents/MS-DraftOpiniononSystemMarketPowerMitigation-Nov5_2019.pdf

Pivotal Supplier Test Design

In its opinion, the MSC emphasized that the three pivotal supplier test “as currently implemented is both a blunt and conservative test of competitiveness.” The Commenters therefore appreciate the CAISO’s effort to refine the pivotal supplier test design in a number of ways to improve the test’s accuracy, including treating economic import offers and offers from participating resources within the energy imbalance market as fringe supply, and accounting for net seller load-serving obligations when possible.

Determining a Competitive LMP

The Commenters appreciate and support retaining the concept of a competitive LMP as a floor when system market power mitigation is triggered. A well-designed competitive LMP will reduce the risk that CAISO inadvertently mitigates prices below competitive levels and discourages participation in the CAISO markets by external resources.

However, the Commenters believe the CAISO’s current proposal to mitigate to a competitive LMP based only on the price in the EIM BAA(s) that are experiencing export congestion (and without consideration of prevailing western bilateral prices) still fails to prevent the inefficient suppression of market-clearing prices (when the CAISO BAA is importing) below competitive levels. The Commenters suggest that CAISO consider incorporating western bilateral price levels using a similar approach to the CAISO’s proposal to calculate a maximum import bid price in the FERC 831 initiative. Specifically, CAISO could use day-ahead bilateral index prices at the major trading hubs of Mid-C and Palo Verde, shaped by the hourly CAISO SMEC, to create an hourly set of shaped bilateral prices that would establish an hourly price floor on the competitive LMP used for system market power mitigation.

The Commenters further note that the CAISO’s design may be informed by the Midcontinent Independent System Operator’s (MISO’s) application of a conduct and impact assessment. Under the MISO’s mitigation framework, a resource is permitted to bid up to a threshold price that is 3x the reference level (Default Energy Bid (DEB)) before mitigation occurs. CAISO should consider adopting a similar design in which a resource is mitigated to the maximum of (1) a similar threshold related to reference level pricing and (2) the competitive LMP. This new threshold level would allow resources to offer their supply at levels that reflect competitive wider market pricing and would not discourage their participation by having the potential to be mitigated to their DEB.

A reasonably accurate competitive proxy price must consider prevailing external bilateral market prices. Unlike the CAISO real-time market, the EIM only represents a small share of the overall real-time market available to external entities. For example, the EIM footprint only represents about 10% of the export transmission available to the CAISO from the Pacific Northwest. In addition, large volumes of real-time bilateral trades are made on an hourly basis by both EIM and non-EIM participants. In other words, prices in the EIM are not necessarily indicative of the broader western real-time prices. The Commenters believe that CAISO should continue to evaluate approaches to incorporate bilateral prices into the competitive LMP.