



Stakeholder Comments Template

System Market Power Mitigation

This template has been created for submission of stakeholder comments on the Revised Straw Proposal for the System Market Power Mitigation. The paper, stakeholder meeting presentation, and all information related to this initiative is located on the [initiative webpage](#).

Upon completion of this template, please submit it to initiativecomments@caiso.com. **Submissions are requested by close of business May 4, 2020.**

Submitted by	Organization	Date Submitted
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CAISO's latest proposal is an improvement over previous iterations, although still likely to miss many instances of market power. CPUC staff believes that the proposal needs additional work, but that this can readily be accomplished before being brought to the Board. Staff looks forward to continued collaboration with CAISO staff in this effort.

One group of stakeholders vocally opposed the latest developments during the recent stakeholder call. CPUC staff do not agree that the problems cited by these stakeholders are issues with the proposed design of system market power mitigation. The two major issues raised were:

- potential to reduce rent payments to EIM entities and importers who are inframarginal when market power is being exercised within the CAISO BAA, and
- complaints about the CAISO's current import bidding and dispatch design.

When prices are artificially inflated within the CAISO BAA in the real-time, this results in multiple sources of unjust costs for California ratepayers. Not only are CAISO ratepayers forced to overpay for electricity produced in the CAISO BAA, but they are also forced to pay artificially high congestion rents to external entities who are already selling to California at their maximum offer price. The CAISO's proposal would help to address this transfer from California ratepayers to external entities who are already receiving compensation for their energy.

Stakeholders also discussed issues surrounding import resources receiving lower prices in the fifteen minute market (FMM) than the dispatch price used in hour-ahead scheduling process (HASP) to

schedule intertie transactions. The design of import pricing rules¹ originated with CAISO's implementation of FERC Order 764. As is, the pricing for these transactions is not optimal. In part, this is related to the less than optimal nature of scheduling hourly block transactions in the CAISO's more granular markets. Any desire to redesign these import pricing rules does not preclude designing an effective system market power mitigation process.

The lack of flexibility and corresponding lack of value provided by hourly block imports is highlighted by the issues in the system market power initiative. Many transactions outside of the CAISO take place in hourly blocks. None of this supply is readily available to help alleviate the market power that could potentially be exercised in the CAISO's real-time markets. Resources that can only be dispatched on an hourly basis have limited use in the FMM and generally no presence in RTD. Pretending that this capacity can help ease artificially high prices in the CAISO BAA is dangerous and can expose California ratepayers to unjust costs. If the resources cannot respond to 15-minute or 5-minute dispatches, they cannot ease the burden of market power being exercised in the 15-minute or 5-minute markets. Staff agree that the pricing scenario for intertie transactions with hourly bids is not ideal, but also believe the CAISO's proposal treats these transactions appropriately in terms of assessing the potential for CAISO internal resources to exercise system-wide market power.

The examples provided in the CAISO proposal represent a different formulation for power balance constraints than staff understands to be currently in place. In particular, the CAISO portrays a BAA-specific power balance constraint for every BAA. Staff's understanding is that each BAA besides the CAISO has one of these constraints, and then the system constraint effectively measures the price in the CAISO BAA. Do the examples in the proposal represent a planned change, or a simplification for purpose of explanation? Staff would appreciate a more detailed and accurate mathematical formulation for these constraints and planned mitigation designs.

Staff would like to clarify that the competitive LMP will be the smallest of the following two quantities

- lowest uncleared bid on a congested intertie, and
- second highest (after the price in the region that includes CAISO) EIM BAA system price

How do the Order 831²-related intertie bidding options interact here? Is it possible in some cases that a verified bid above \$1,000/MWh could set the competitive LMP? Can the CAISO provide the mathematical formulation that would be used in implementation to calculate the EIM BAA prices?

CPUC staff would also like to see additional mathematical examples of the CAISO's plan for triggering the Residual Supply Index (RSI) calculation and for calculating competitive LMPs. Staff pose the following questions regarding different circumstances that could arise and how they would be handled by the system:

- Suppose that one BAA is negatively priced and all other BAAs are equal. What happens with this system? Is the test triggered? What would be the basis for competitive LMP?

- Suppose the CAISO is priced high, for example \$900, but another BAA is higher, at \$1,000. The second BAA is not directly connected to the CAISO and all BAAs in between the two are

¹ http://www.aiso.com/Documents/Addendum-DraftFinalProposal-FERC_Order764MarketChanges.pdf

² More detail on CAISO's compliance with Order 831 can be found at: <http://www.aiso.com/StakeholderProcesses/FERC-Order-831-Import-bidding-and-market-parameters>

priced at \$50. Would this trigger the RSI calculation in the CAISO? What if the CAISO is \$1,000, and the second is \$900? Does this mean \$900 is the competitive LMP in the CAISO? -How will the RSI calculation account for EIM supply that would deliver to the CAISO by way of an Energy Transfer Scheduling Resource? Counting the entirety of offers may overestimate the supply that would realistically be available to relieve market power in the CAISO BAA. Staff currently is not clear on what EIM transfer supply would be included as fringe competitive.

-CAISO's proposal discusses adjusting for load serving obligations, but in a very simplistic manner. Underlying the method proposed seems to be the assumption that a given LSE has the same share of CAISO load at all times of the year and all times of day. This is unlikely to be true. Has the CAISO contemplated the impacts that this assumption may have on bidding behavior?

Staff is generally supportive of the ideas included in this iteration of the proposal, but slightly concerned that EIM BAAs would be used as the basis for competitive LMPs. Most of these areas are dominated by a single vertically-integrated utility, and unlikely to exhibit true competitive outcomes.