COMMENTS OF IDAHO POWER COMPANY ON CAISO'S LOCAL MARKET POWER MITIGATION ISSUE PAPER/STRAW PROPOSAL

Submitted By	Company	Date Submitted
Camille Christen cchristen@idahopower.com	Idaho Power Company	October 3, 2018

Idaho Power Company ("Idaho Power") appreciates the opportunity to comment on the California Independent System Operator's ("CAISO") Local Market Power Mitigation Issue Paper/Straw Proposal ("Proposal"). Idaho Power appreciates CAISO holistically evaluating changes to the local market power mitigation processes and Default Energy Bids. Idaho Power also appreciates that CAISO will be holding a stakeholder working group on October 10 to further discuss the Proposal. In general, Idaho Power encourages CAISO to perform further study and analysis of the components of the Proposal prior to any final decisions to ensure that there are not unintended consequences.

I. CHANGES TO ADDRESS FLOW REVERSAL

To address the problem of flow reversal, as described in the Proposal, CAISO has proposed changes to the competitive Locational Marginal Price ("LMP") used in the mitigation process. Specifically, CAISO proposes to adjust the competitive LMP for each market run. According to CAISO, this will allow a more appropriate LMP to be used for each interval and will prevent flow reversal.[1]

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[1] CAISO's *Local Market Power Mitigation Issue Paper/Straw Proposal*, p. 10 (Sept. 13, 2018), http://www.caiso.com/Documents/IssuePaperandStrawProposal-LocalMarketPowerMitigationEnhancements.pdf.

To facilitate this change, CAISO proposes to perform the dynamic competitive path assessment for each 15-minute interval, including advisory intervals. In the five-minute, real-time dispatch, CAISO proposes to eliminate the following two rules which currently do not allow mitigation to be considered for each market run individually:

- Eliminate the rule that if a resource is mitigated in the 15-minute market, it is automatically mitigated in real-time dispatch; and
- Eliminate the rule that if the first or second five-minute interval in a 15-minute market interval is mitigated, that the remaining five-minute intervals will also be mitigated.

Finally, CAISO proposes to add a small parameter to the calculation of the competitive LMP to establish price separation between competitive and non-competitive areas.

Based on the information currently available, Idaho Power does not object to the proposed changes to address flow reversal. Idaho Power looks forward to continued discussion of these changes.

II. CHANGES TO ADDRESS ECONOMIC DISPLACEMENT

CAISO also discusses the problem of economic displacement, where mitigation results in different dispatch within a constrained region (i.e., a "bubble") of Energy Imbalance Market ("EIM") Entities. CAISO defines economic displacement in this scenario as "replacing energy from one resource with energy from another beyond what is necessary to resolve market power in meeting imbalance needs because a resource is dispatched higher as a result of mitigation."[2] CAISO recognizes that it "does not appear to be appropriate to mitigate bids for this additional energy" because the EIM is voluntary and the additional energy—or the transfer capacity to deliver it—does not have to be offered.[3] To address economic displacement, CAISO proposes to limit changes in

[2] *Id.* at 15.

[3] *Id.*

exports or imports from one EIM Balancing Authority Area ("BAA") to another in a constrained region. According to CAISO, this will prevent exports from increasing, or imports from decreasing, and will therefore avoid a scenario where one BAA serves additional load in another BAA due to resources in the first BAA having lower-priced mitigated bids.[4]

Idaho Power appreciates that CAISO has recognized that, where constraints do not exist between the BAAs within the bubble, the effects of mitigation can be inappropriate. Idaho Power also appreciates CAISO's efforts to identify a solution for economic displacement. That being said, Idaho Power reiterates its previous comments that as long as there are not constraints within the bubble, mitigation should not be applied to transfers between the BAAs in the bubble.[5]

The proposed transfer limitations need further analysis and study. In the stakeholder meeting on the Proposal, held on September 19, 2018, participants raised a number of questions and concerns. For example, the Department of Market Monitoring ("DMM") raised a concern that the proposal to limit the transfers may constitute a change to assumptions used in DMM's studies related to market-based rate authority. DMM also raised a concern that a situation could occur where a higher-priced BAA ends up exporting to a lower-priced BAA due to the transfer limitation. Idaho Power would like more information on these concerns and cannot support the proposal without further information and analysis on its potential effects. Idaho Power requests that DMM study the Proposal, prior to any final decisions being made, to determine whether it will have an effect on its analysis of market power and market-based rate authority.

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[4] *Id.*

[5] Idaho Power Company's Comments on CAISO's July 19, 2018, EIM Offer Rules Workshop, p. 4 (Aug. 2, 2018), http://www.caiso.com/Documents/IPCComments-EIMOfferRulesTechnicalWorkshop-Jul19-2018.pdf.

III. NEW DEFAULT ENERGY BID FOR USE-LIMITED EIM RESOURCES

Idaho Power thanks CAISO for proposing a new Default Energy Bid ("DEB") option for EIM use-limited resources. The proposed new DEB is a step in the right direction, and Idaho Power supports the concept of using the greater of the day-ahead prices or the monthly prices (up to the resource's number of months of storage). Idaho Power has a few suggestions to further refine the equation.

First, at the September 19 stakeholder meeting, Powerex advocated for the DEB calculation to consider that entities may have the ability to sell at multiple locations. Idaho Power strongly agrees. Idaho Power has the ability to sell at multiple index locations and sells at whichever market allows the best possible price. The location can depend on season and other factors. Limiting the DEB to a single index does not reflect reality and will continue to understate opportunity costs. Idaho Power recommends the EIM use-limited resource DEB be revised to allow for the greater of the indices at which the EIM Entity has the ability to sell. (The same ability to transact at multiple locations applies for gas generation as well as use-limited hydro. It is unrealistic to limit the DEB to a single index; the DEB for gas generation should also allow for consideration of multiple indices.)

Second, the 110 percent multiplier in the equation is insufficient. Real-time and super-peak prices are frequently substantially higher than day-ahead prices or any of the forward prices on the horizon. To determine a more appropriate multiplier, Idaho Power proposes that CAISO do a study to determine the sensitivity of hourly prices versus forward prices.

Finally, Idaho Power requests further clarification on whether the new DEB option will impact existing negotiated DEBs. For example, if an EIM Entity determines that its existing negotiated DEB better reflects its opportunity costs, compared to the new use-limited DEB, will it have the option of continuing to use the existing negotiated DEB?

IV. REFERENCE LEVEL ADJUSTMENTS

Idaho Power appreciates CAISO's proposal to allow EIM Entities to request reference level adjustments based on real-time electric prices in order to adjust the day-ahead energy component of the equation. This proposal is a step toward recognizing, as mentioned above, that real-time and super-peak prices are often substantially higher. While Idaho Power appreciates this proposal, by itself it is not enough to ensure that the DEB accurately reflects opportunity costs. As mentioned above, real-time prices can frequently be much higher than day-ahead or monthly forward prices. Reflecting this through the multiplier, rather than the reference level adjustment process, would be more appropriate. The reference level adjustment process is a useful backstop in the event of very high prices, but given the frequency of real-time prices being higher than day-ahead and monthly forwards, it is not workable for EIM Entities to have to request one-off reference level adjustments to reflect typical real-time prices that are higher than day-ahead or monthly forward prices.

V. EIM GOVERNING BODY CLASSIFICATION

The Proposal indicates that the changes it discusses are severable and that some fall under the EIM Governing Body's primary authority, while others fall under the Governing Body's advisory authority. Specifically, the proposal to freeze transfer quantities between groups of EIM Entities subject to mitigation to the quantities scheduled in the market power mitigation run and the proposal to create a new DEB for use-limited EIM resources fall under the EIM Governing Body's primary authority. These changes would only impact the EIM and EIM Entities, not the larger market or market participants.

On the other hand, the proposal to change the calculation of the competitive LMP and the proposed changes to the reference level adjustment process are not specific to EIM Entities and would impact the CAISO BAA as well as EIM Entities' BAAs. Thus, these changes would fall under the EIM Governing Body's advisory authority. The EIM Governing Body would have the option of providing an advisory opinion to the CAISO Board on the other elements of the proposal.

Idaho Power does not object to CAISO's characterization of the EIM Governing Body's authority over these issues. Idaho Power's primary concern is that the EIM Governing Body have the opportunity to weigh in on proposals that impact the EIM. Under the proposed classifications, the Governing Body would have that chance.

Idaho Power thanks CAISO for the opportunity to comment and looks forward to continued collaboration on these and other issues.