



Stakeholder Comments Template

System Market Power Mitigation

This template has been created for submission of stakeholder comments on the Draft Final Proposal for the System Market Power Mitigation initiative. 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 July 14, 2020.**

Submitted by	Organization	Date Submitted
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Please provide your organization's general comments on the following issues and answers to specific requests.

In general, three aspects of this initiative concern MRP. *First*, MRP is concerned that the CAISO is moving forward in an unbalanced way to consider system-level market power mitigation without simultaneously considering system-level scarcity pricing. *Second*, MRP is concerned about the "whipsaw" nature of this initiative and whether the final proposal truly strikes the right balance. The CAISO initially proposed to limit testing to when the three major interties were simultaneously constrained, which limited testing to a confined number of hours, then proposed to test in up to 28 percent of all intervals. The CAISO now proposes to add three criteria to limit testing in this "final" iteration, and while MRP supports the CAISO limiting testing only to hours in which system market power can be exercised, the CAISO has not yet provided any indication of what it thinks the testing or mitigation frequency will be under this draft final proposal. *Finally*, limiting testing and mitigation to internal resources exacerbates different treatment of resources serving a common purpose – serving load within California.

The CAISO has committed to driving ahead with this initiative, and MRP hopes that the proposed narrow design, which applies only to the real-time market, will not prove to be disruptive. MRP urges the CAISO to move forward on this topic in a more balanced way that simultaneously considers the need for system-level scarcity pricing and does not exacerbate the different treatment of imports and in-state resources.

1. Pivotal Supplier Test Trigger

Please provide your organization's specific feedback on the ISO's Pivotal Supplier Test Trigger proposal, as described within the draft final proposal, which includes several criteria to only perform the three pivotal supplier test when there is a potential for system-level market power.

MRP supports the CAISO's proposal to add three criteria to condition testing for system market power. As the CAISO now proposes, for testing for system market power mitigation to be triggered, CAISO energy prices must exceed: (1) \$100/MWh; (2) published bilateral index prices and (3) the calculated proxy cost of a hypothetical gas peaking unit. These criteria should reduce the frequency of testing for system market power, which the CAISO estimated would have been triggered in 28 percent of 15-minute intervals in 2019,¹ to a more rational and less alarming number.

The CAISO notes that it has not yet developed an estimate as to how often testing would be triggered following the addition of the three proposed criteria in its Draft Final Proposal, but also noted that the CAISO plans to provide such an estimate before seeking CAISO Board of Governors approval of this initiative, which the CAISO targets for September 2020.² MRP appreciates the CAISO's commitment to providing this estimate and looks forward to seeing the estimate.

2. Pivotal Supplier Test Design

Please provide your organization's specific feedback on the ISO's proposal to use the three pivotal supplier test to determine if pivotal suppliers in the ISO Balancing Authority Area (BAA) could exercise market power in the constrained region, as described within the draft final proposal.

MRP supports the CAISO's proposal to:

- Mitigate only the offers from pivotal suppliers (as opposed to all suppliers) when the three pivotal supplier test fails.
- Consider the load-serving positions of entities that control both supply and load when determining the amount of potentially pivotal supply. However, the CAISO's proposal to use a three-month average of entities' load to assess their load-serving positions might lead to inaccurate shares in shoulder months when load changes significantly. The CAISO should consider using historical data rather than current data in some situations to ensure that load ratio shares are appropriately determined. A failure to accurately consider entities' load serving positions could lead to triggering mitigation unnecessarily.

¹ April 7, 2020 *System Market Power Mitigation Revised Straw Proposal* at page 3

² June 15, 2020 *System Market Power Mitigation Draft Final Proposal* ("DFP") at pages 6, 39.

MRP remains concerned about these aspects of the CAISO's proposed pivotal supplier test design:

- The CAISO's proposal to consider as pivotal the two largest internal suppliers plus all other suppliers whose supplies are needed to meet demand. This effectively turns the CAISO's three pivotal supplier test into an "N" pivotal supplier test where N is not defined *a priori*. MRP requests the CAISO present an estimate as to how often this aspect of the proposal would lead to mitigating the offers of more than three pivotal suppliers.
- The CAISO has proposed to mitigate only offers from internal resources and to consider all import offers, including the offers from RA import suppliers, as non-pivotal supply. As rationale for this position, the CAISO observes that RA importers must compete for limited inertia capacity.³ While MRP agrees that competition should discipline offers, MRP observes that, if importers believe that the inertias will not be congested, but that California will require imported energy to serve demand, they might seek to exercise system market power through their bids anyway.
- While the CAISO has proposed to conduct testing in the Hour-Ahead Scheduling Process ("HASP") market run, Figure E.8 of the CAISO's 2019 Annual Report on Market Issues & Performance shows that average hourly operator adjustments to HASP increased significantly in 2019. MRP requests that the CAISO discuss how these manual load adjustments may impact system market power mitigation testing and mitigation frequency when it presents this topic to the CAISO Board in September.

3. Determining competitive LMP

Please provide your organization's feedback on the proposal to calculate the competitive locational marginal price (LMP) when the ISO BAA fails the system-level market power mitigation test.

MRP supports the CAISO's revised proposal to set the competitive LMP as the greater of (1) \$100/MWh; (2) the highest day-ahead bilateral trading hub index price plus 10%; (3) the CAISO's marginal energy cost based on a hypothetical gas-fired peaking unit cost using current as prices plus 10%; and (4) the next-highest marginal energy cost in the same market interval of a balancing authority area ("BAA") in the Energy Imbalance Market ("EIM").

4. Applying mitigation to internal supply offers

Please provide your organization's feedback on the proposal to apply the Pivotal Supplier Test to mitigate pivotal supplier resource offers within the ISO's BAA when the pivotal supplier test fails.

³ DFP at page 31.

Please see discussion in topic 2 above.

5. **Additional comments**

Please offer any other feedback your organization would like to provide on the **draft final** ~~revised~~-straw proposal and topics discussed during the web meeting.

As this initiative has progressed, the CAISO's proposal to implement system market power mitigation has "swung" considerably. The CAISO was initially looking to test for the potential to exercise system market power and apply mitigation when the three major interties were simultaneously constrained, which historically has happened in a relatively few intervals. The next iteration of the CAISO's proposal, which focused on testing when the CAISO was in the highest priced EIM area and EIM imports were constrained, alarmingly projected testing in nearly a third of all intervals, which implied testing during load levels below 27,000 MW. The draft final proposal's specification of three additional criteria for testing appears to swing the pendulum back towards a more rational and manageable amount of testing, though the CAISO's estimate of projected testing frequency and mitigation has not yet been issued.

The CAISO's proposal for implementing real-time system market power testing and mitigation for the summer 2021 *might* prove workable and not unduly disruptive. However, MRP remains concerned that the CAISO has not proposed to address the critical flip side of system market power mitigation – the equally urgent need for system-level scarcity pricing – with the same urgency for which it is pursuing system market power mitigation. This unbalanced approach to market design should not and cannot continue. MRP strongly urges the CAISO to re-balance its approach to market design by not moving forward on system-level market power beyond this initiative unless it simultaneously takes up the issue of system-level scarcity pricing.