



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
Brian Theaker	Middle River Power, LLC (“MRP”)	May 4, 2020

Please provide your organization’s general comments on the following issues and answers to specific requests.

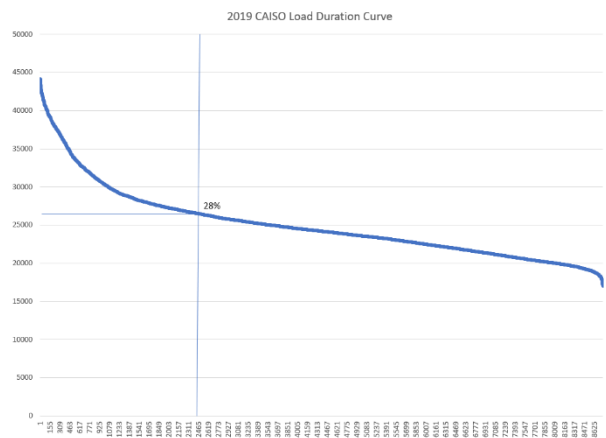
MRP will refer to the April 7, 2020 Revised Straw Proposal using the initialism “RSP” in these comments.

1. Pivotal Supplier Test Trigger

Please provide your organization’s specific feedback on the ISO’s proposal to perform the Pivotal Supplier Test when its Balancing Authority Area (BAA) is in the highest priced import-constrained region in the energy imbalance market.

MRP is concerned that the CAISO’s new proposal for triggering mitigation testing – to test when Energy Imbalance Market transfers into a contiguous group of regions are constrained and the CAISO is the highest-priced region within that contiguous group – will trigger testing for system market power too frequently, leading to a significant potential for over-mitigation.

First, as the CAISO reports, the conditions under which the CAISO now proposes to test for system market power occurred in 28 percent of all 15-minute intervals in 2019.¹ To provide some context for this



¹ RSP at page 3.

alarming value, the load at the 28% duration point in the CAISO's hourly 2019 load duration curve is approximately 26,500 MW, approximately 60% of the CAISO's peak demand for 2019. It is not intuitively obvious how the conditions under which the potential to exercise system market power would exist at such low load levels. The 28% number presumably derives from the fact that the CAISO is only considering EIM transfers and transfer capability, as will be discussed below.

The 28% frequency value is especially alarming when viewed in the light of the CAISO's initial proposal, which was based on triggering testing only when the CAISO's three major import paths were import-constrained, and would have triggered testing in far fewer and more appropriate intervals.

Second, as noted by participants on the CAISO's April 13 webinar, the amount of total available EIM transfer capability between regions is a relatively small portion of overall transfer capability between regions. It is possible that EIM transfer capability into the contiguous block could be fully utilized while non-EIM transfer capability into the contiguous region block could be far less than fully utilized. Mitigating prices under these conditions could encourage load to wait until real-time to secure supply, creating incentives that would undermine reliable system operations.

MRP appreciates that the CAISO has committed to identifying the number of tested 2019 real-time intervals in which the proposed three pivotal supplier test would have failed and triggered mitigation, which may provide some indication of how often the CAISO's new proposal will trigger mitigation in the future. Triggering mitigation too frequently is likely to deter non-RA import suppliers from offering energy to the CAISO, which could result in an undesired positive feedback loop triggering mitigation far more frequently.

The CAISO has proposed to not mitigate import bids because "import bids likely represent fringe supply that is unable to exert market power." (RSP at page 7.) If the CAISO is testing for mitigation in a large number of intervals, including when CAISO system demand is less than 30,000 MW, it is possible that imports could represent a very significant portion of overall supply at those lower demand levels, which raises the possibility that import suppliers could be part of the pivotal supplier cohort. The CAISO's analysis should investigate this possibility.

For all these reasons, MRP respectfully requests the CAISO re-consider its proposed testing trigger.

2. Pivotal Supplier Test Design

Please provide your organization's specific feedback on the ISO's proposal to consider suppliers with resources within the CAISO BAA as potentially pivotal, treat economic import offers and offers from participating resources within the energy imbalance market as fringe supply, and account for net seller load-serving obligations.

The CAISO's proposed test:

- Considers imports to be fringe supply and assumes that fringe supply cannot exercise market power;
- Considers only suppliers with the CAISO's Balancing Authority Area ("BAA") as potentially pivotal; and

- Accounts for entities' load serving obligations (i.e., assumes that LSEs also controlling supply lack the incentive to exercise market power, as doing so would raise the cost to their own demand).

As noted above, MRP is concerned about the assumption that import supply will always be fringe supply, especially if the CAISO tests for the potential to exercise system market power at lower-demand intervals.

MRP is also concerned about the CAISO's proposal to not mitigate energy offers from external RA supply, not because MRP supports mitigating energy offers, but because it perpetuates and exacerbates discriminatory treatment between RA imports and internal RA resources.

The CAISO's proposal to exclude supply that is below a load serving entity's demand obligation from the potentially pivotal supply pool seems rational. MRP agrees that internal supply that is needed to meet internal demand has no incentive to raise energy prices. Supply in excess of an LSE's demand obligation, however, does not face the same incentive, especially if the LSE's demand is covered by self-scheduled supply; instead, an individual LSE's incentive would be to secure the highest price for that remaining supply, such that this supply could be encouraged to exert market power.

3. Determining competitive LMP

Please provide your organization's feedback on the proposal to determine the competitive Locational Marginal Price (LMP) when the ISO mitigates bids for resources located within its BAA.

The CAISO proposes that the "competitive LMP" will be the lower of (1) the CAISO's next constrained un-cleared economic import offer or (2) the lowest power balance constraint shadow price outside the highest priced region of BAAs in the EIM. (RSP at page 33). The CAISO asserts that price is the price demand in the CAISO BAA would pay for the next increment of energy if that demand was not constrained by the CAISO's import limitations and the EIM's transfer limitations.

This narrative formula is complex; MRP requests that the CAISO provide some examples as to how this price would be determined under various scenarios.

4. Applying mitigation to internal supply offers

Please provide your organization's feedback on the proposal to mitigate pivotal supplier resource offers within the ISO's BAA.

The CAISO's proposal to mitigate supply offers only from internal, pivotal resources (RSP at 36) raises concerns and should be reconsidered.

First, the CAISO has proposed that it will mitigate the offers of the two largest pivotal suppliers and the supply of market participants that is also large enough in combination with the two largest pivotal suppliers to cause the three pivotal supplier analysis to fail. (CAISO April 13 Presentation at slide 15.²) This provision has the potential to negate the beneficial effects of limiting mitigation to three pivotal suppliers by effectively expanding the pivotal supplier test into an "N"-pivotal supplier test, where "N" is not known *a priori*. Inasmuch as the CAISO is evaluating how often mitigation would be applied under the

² The CAISO indicates it will "Mitigate resource offers from any supplier when in combination with the two largest suppliers are required to meet demand".

CAISO's proposed method, MRP requests the CAISO provide market participants key information addressing how often the CAISO would have mitigated more than three pivotal suppliers.

Second, as noted above, the CAISO's proposal to mitigate offers from internal RA resources, but not external RA resources, raises discrimination issues. Not mitigating RA import energy offers because they have been conclusively determined, not just assumed, to be fringe supply is a rational approach. Not mitigating their offers based on an unproven assumption, however, is not rational.

5. **Additional comments**

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

MRP agrees with market participants that urge the CAISO, as an alternative to the CAISO's proposed testing and mitigation methodology, to evaluate a conduct-and-impact style system market power assessment and mitigation methodology. Applying mitigation when only the potential for market power to be exercised exists (especially when that "potential" requires the collusion of three independent market participants), rather than when market power is actually being exercised, is not just simplistically conservative, but borders on being anti-competitive.

It seems rational that if true scarcity conditions, including scarcity triggered by import limitations, could lead to the potential for the exercise of system market power, these conditions should trigger appropriate scarcity pricing. This accelerated stakeholder process, however, is completely focused on system market power mitigation; the word "scarcity" does not even appear in the CAISO's RSP. As such, the CAISO's approach to this topic is unbalanced.

In sum:

- MRP remains concerned that the proposed testing trigger conditions will test far too many intervals, and therefore has the potential to trigger mitigation in far more intervals than what would be required to prevent the exercise of system market power.
- MRP also shares other market participants' concerns that triggering testing based on EIM transfer limits, rather than on total system transfer limits, will result in over-testing and over-mitigation.
- MRP is also concerned that the CAISO's proposal to mitigate internal resources but not external resources will exacerbate, rather than mitigate, the discriminatory difference in treatment between internal and external RA resources.