COMMENTS OF NV ENERGY
LOCAL MARKET POWER MITIGATION ENHANCEMENTS
SECOND REVISED STRAW PROPOSAL
DATED NOVEMBER 16, 2018
CAISO STAKEHOLDER PROCESS

December 7th, 2018

NV Energy appreciates the opportunity to comment on the CAISO second revised straw proposal; however NV Energy remains concerned with elements of the proposal that CAISO is still pursuing with respect to flow reversal and economic displacement.

The expanded hydro default energy bid proposal should be the only element needed in these stakeholder enhancements. If an EIM Entity voluntarily participates by submitting supply offers into the market, including offers above the amount necessary to pass the flexible ramp sufficiency test, those offers should be subject to a uniform set of rules, including those necessary to prevent the exercise of market power. It is unduly discriminatory to permit one subset of market participant to effectively withdraw voluntary offers if those bids are appropriately mitigated. Once a participant has passed their flexible ramping and capacity tests, then the participant is in the market, including any additional supply voluntarily offered for the remainder of that hour.

Sales of voluntary supply offered to the market, including sales resulting from flow reversal and economic displacement, should not matter to an Energy Imbalance Market participant when their default energy bid accurately represents its costs plus lost opportunity. Moreover, the proposal to eliminate economic displacement during intervals of mitigation conflicts with the intent of CAISO mitigation measures as stated in the CAISO Tariff.[1]

I. Updated Market Design Principle

CAISO updated its proposed market design principle for this stakeholder initiative:

> "EIM is a voluntary market but the design assumes sharing of flexibility. In cases of mitigation involving EIM transfers to another balancing authority area, supply should not be forced to sell energy at a mitigated price greater than: (1) the exporting balancing authority area's flexible ramp upward requirement; or (2) the pre-mitigation (MPM) export quantity. The use of mitigated bids should not result in additional economic displacement of other supply." [2]

NV Energy does not support this updated design principle. It inappropriately expands the use of a test requirement that was intended only to determine resource sufficiency as related to market participation, prior to a market run. The CAISO's proposal essentially allows a participating Energy Imbalance Market Entity to elect to pull capacity out of the market, ***that it had previously offered voluntarily***, during periods of mitigation. Accordingly, this updated proposed market design principle still conflicts with the intent of the CAISO mitigation measures – to ensure supply offered into the market does not unjustly increase prices due to the exercise of market power. By allowing participants to withdraw capacity during intervals of mitigation, CAISO is allowing noncompetitive outcomes to occur. Market design principles should not conflict with the intent of CAISO Mitigation Measures defined in the CAISO tariff.[1] If the approved methodology for when mitigation is triggered is reasonable and if the mitigated price, the default energy bid is reasonable, then any supply voluntarily offered should be subject to the competitive market price outcome, including the default energy bid where applicable.

II. Adder to the Competitive LMP to Prevent Flow Reversal

The CAISO proposes to modify the mitigation extension rules with the proposed solution for the flow reversal issue. NV Energy is supportive of the proposed modifications to the mitigation extension rules as these modifications should result in mitigation during intervals where the opportunity for market power exists. The CAISO should monitor these changes after implementation to determine if any adverse outcomes occur. For instance, the DMM mentioned that a participant may buy back the energy at a higher cost as a result of these changes.[3] If that outcome continuously occurs, then these extension rules should be revisited. Additionally, CAISO proposes to update the competitive locational marginal price in the current market run. NV Energy is also supportive of this proposal, because this rule should help prevent flow reversal. By updating the competitive locational marginal price, the Entity will not be mitigated lower than that intervals competitive locational marginal price.

As a final measure to prevent flow reversal, CAISO proposes to add a price adder to the competitive locational marginal price to ensure price separation between balancing authority areas. This adder has not been defined, but has been stated to be nominal. NV Energy requests that this adder be defined by CAISO proposing an adder cap. This adder cap should be specified so that stakeholders can consider any issues from the magnitude of the cap. Additionally, the cap should be included in the CAISO tariff. A pricing adder cap is not a new concept as CAISO has specified a cap for the EIM Transfer Schedule costs in phase one of the CAISO Energy Imbalance Market Year One Enhancements. NV Energy proposes that the competitive locational marginal price adder cap be consistent with the nominal EIM transfer schedule cost cap of $.01/MWh, if CAISO continues to pursue an adder.[4] However, NV Energy does not agree that there is a necessity for a competitive locational marginal price adder in conjunction with the other market mitigation proposals that CAISO is pursuing.

III. Economic Displacement During Mitigation

CAISO proposes to limit transfers during intervals of mitigation to the greater of the Entity's flexible ramp up requirement or the pre-mitigation export. CAISO has stated that "mitigated bids that result in additional transfers in a voluntary market can be problematic in cases when a resource's default energy bid is lower than a resource owner's estimate of costs".[2] This statement assumes that the CAISO will never be able to design a default energy bid that captures the resource owner's estimated lost opportunity costs. NV Energy does not support this proposal and does not agree that CAISO is not capable of designing a default energy bid that captures a resource's lost opportunity costs. This proposal conflicts with the intent of the CAISO Mitigation Measures as designed in the tariff, because it prevents economic displacement from occurring during intervals of mitigation. Limiting transfers during intervals of mitigation will result in instances of price separation between balancing authority areas which distorts competitive outcomes in the Energy Imbalance Market. When price separation occurs, the importing Balancing Authority Areas load will be paying a higher price to serve its energy imbalances. This also impacts third party customers within the Balancing Authority Area, because their imbalances are subject to those increased prices. It is also important to note that the magnitude would be much larger if the Energy Imbalance Market was extended into the Day Ahead Market.

CAISO has updated its proposal to allow this limitation to be optional to each EIM Entity. However, CAISO has not proposed to change the congestion rent mechanisms already designed within the market. By not changing this rule, CAISO would incentivize EIM Entities to select the option to limit transfers during intervals of mitigation because they would receive congestion revenue when prices separate. Stating this another way, EIM Entities would receive additional revenue by limiting transfers. NV Energy does not agree that any market design should incentivize an entity to select an option to limit transfers resulting in inefficient market outcomes.

NV Energy does not support any proposal to prevent economic displacement during mitigation because they conflict with the intent of the CAISO mitigation measures, create inefficient market outcomes, and incentivize entities to limit transfers. NV Energy reiterates if the need for mitigation is triggered under appropriate conditions and if the DEB appropriately values opportunity costs then supply that has been voluntarily offered to the market should be treated the same. Just because the voluntary offer has the potential to be mitigated does not make it any less voluntary. That potential existed when it was offered. The critical element is the appropriate value of the DEB. It must be adequate enough to encourage participation by recognizing valid opportunity costs.

IV. Hydro DEB

The EIM use limited default energy bid proposal has been updated to only include hydro resources with storage. NV Energy does not oppose changes to the default energy bid to reflect actual lost opportunity costs.

NV Energy is not entirely sure it is appropriate to compare this lost opportunity to the bilateral market. NV Energy would like to see a comparison to the proposed hydro default energy bid to the lost opportunity costs calculated in the Commitment Cost Enhancements Phase 3. The Commitment Cost Enhancements Phase 3 calculates a lost opportunity cost as a lost opportunity for intervals within the CAISO market, but does not consider the lost opportunity costs for resources participating in the bilateral market. Therefore, NV Energy questions whether or not it is appropriate for a hydro storage resources to receive a lost opportunity cost from the bilateral market. The bilateral market allows the buyer to reject offers, which is not possible in the security constrained economic dispatch. A default energy bid may set the market price, therefore, it is important to determine what costs should be reflected in this mitigated bid. Moreover, the Energy Imbalance Market is designed as voluntary meaning that market participants may elect to not participant above their flexible ramping requirements for certain hours. This voluntary election occurs prior to the market run not during or after the market has optimized the system. Therefore, NV Energy is not sure that it is appropriate to incorporate outside market prices when the participation can be determined by the participant before the market runs.

[1] CAISO. September 24, 2018. "California Independent System Operator Corporation Fifth Replacement FERC Electric Tariff: Section 39." http://www.caiso.com/Documents/ConformedTariff-asof-Sep24-2018.pdf.

[2] CAISO. November 28, 2018. "Local Market Power Mitigation Enhancements Revised Straw Proposal Presentation." http://www.caiso.com/Documents/Presentation-LocalMarketPowerMitigationEnhancements-Nov28_2018.pdf

[3] DMM. October 4, 2018. "Local Market Power Mitigation Enhancements Issue Paper/Straw Proposal." http://www.caiso.com/Documents/DMMComments-LocalMarketPowerMitigationEnhancements-IssuePaper-StrawProposal.pdf

[4] FERC Commission. October 26, 2015. "Docket No. ER15-1919-002 Order Conditionally Accepting Proposed Tariff Revisions".