



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.

| 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.

PG&E offers the following comments on the California Independent System Operator's (CAISO) System Market Power Mitigation revised straw proposal. PG&E appreciates the efforts that the CAISO has made to design an effective market power mitigation framework.

Summary:

PG&E believes significant changes are required to the current proposal to ensure that the CAISO system market power mitigation design is effective in identifying market intervals when there is potential for market power, identifying whether the market is structurally competitive, and mitigating resources if market power potentially could be exerted. In our estimation the current draft final proposal leaves holes in this mitigation design that likely will not fully mitigate all instances when energy market power is a concern.

PG&E requests the CAISO make the following changes to the existing draft final proposal:

1. Eliminate the trigger and competitive LMP that provides a shaped bilateral hub index price from Palo Verde and Mid-C.
2. Amend the proxy cost option trigger and competitive LMP to only reflect PG&E and SoCal Citygate gas prices.

3. Eliminate or reconsider the criteria that requires that the CAISO be the highest priced BAA in the EIM.
4. If the CAISO is going to perform a 3-pivotal supplier test in HASP the CAISO must:
 - a. only include import offers at or below the competitive benchmark, eliminating supply from speculative import bids at or near the price cap and
 - b. consider import supply as potentially pivotal and include the import supply with the appropriate supplier affiliate group.
5. As one of the competitive LMP options, the CAISO should propose the lowest priced EIM BAA as an option rather than the second highest priced EIM BAA region.
6. Mitigate import RA resources when their supplier affiliate group is pivotal.

Background:

As background PG&E is concerned primarily that in addition to an ownership structure where more generation is being owned by net sellers, the future changes in the generation mix in California and across the West will lead to markets tightening in peak net load hours. This structural change in supply as well as tightening in supply will increase risk of system market power in future years. State and local clean energy goals are leading to continual retirements of gas resources that provided a lot of flexibility and evening energy generation. While states will be looking to replace this capacity with other sources in addition to wind and solar that are capable of providing generation when needed, it is possible that there will be gaps in this transition that lead to tightening system conditions. It is important that a CAISO system market power mitigation design is prepared to ensure that its energy markets continue to produce competitive outcomes while California and the West aim to achieve future clean energy goals.

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.

PG&E overall thinks that the CAISO pivotal supplier test triggers are overly burdensome to run a 3-pivotal supplier test and will potentially miss testing certain intervals where there could be market power due to the triggers. PG&E believes that the CAISO adding the trigger that the price should be over \$100/MWh should eliminate the vast majority of hours such that many of the additional triggers are duplicative and simply create risk that overengineered tests won't trigger mitigation even when it's needed.

PG&E does not agree that the bilateral hub indices should be used as a trigger to perform a 3-pivotal supplier test. Bilateral trading hubs should not be used as competitive energy prices to benchmark CAISO's price because bilateral hub prices are not fully independent of the CAISO's price. The bilateral hubs only reflect transactions between willing buyers and sellers, and sellers

can at times choose to sell at those hubs based on whether or not they think they could get a higher price in the CAISO market. These bilateral hubs can reflect higher expected prices from the CAISO during tight supply conditions and anticipate higher prices based on CAISO outcomes from the previous years. If these bilateral hubs anticipate higher CAISO prices during tight supply conditions and trade at a similar price, then the CAISO BAA will never trigger a 3-pivotal supplier test. Without triggering a 3-pivotal supplier test the CAISO BAA will never mitigate to a price below what is expected by the bilateral hubs. The CAISO needs to design a mitigation measure that sets a competitive price and let the bilateral hubs reflect that CAISO price, rather than creating a cyclical criterion that fails to provide meaningful mitigation. The CAISO should create a pricing structure that leads the bilateral market prices rather than following it. The bilateral prices are not independent of the CAISO which means they cannot be a measure for determining whether the price is competitive or not.

PG&E believes the CAISO should amend the proxy cost option trigger to only reflect PG&E and SoCal Citygate gas prices. PG&E understands that the CAISO might want to create a proxy cost comparison to that of a gas peaker plant to account for a situation in which there is a large jump in gas price over night. The CAISO proposed to use any gas price index in the EIM for this hypothetical gas peaker plant. As stated on the stakeholder, it is likely that the CAISO may be import constrained when market power may be a concern. If the CAISO is import constrained, then there is no guarantee that a hypothetical gas peaker plant with a high gas price elsewhere in the EIM could obtain the transmission to reach the CAISO or present a bid that would be accepted on limited transmission into the CAISO. The CAISO should avoid the influence of extreme pricing incidents in relatively isolated areas that are not particularly relevant to California.

PG&E believes that the CAISO should eliminate or reconsider the trigger that requires that the CAISO BAA be the highest priced BAA in the EIM region. As PG&E stated in its previous round of comments, the requirement that the CAISO BAA be the highest priced BAA in the EIM region may miss certain intervals where the CAISO BAA is structurally uncompetitive. Another EIM BAA may have a slightly higher price than the CAISO which eliminates the chances to perform a 3-pivotal supplier test even though there is no guarantee that the other EIM BAA is competitive. Another EIM BAA may have a higher price due to true scarcity or due to market power in its BAA. In either scenario high prices in another EIM BAA may have little to no impact on the CAISO price, particularly when the CAISO is import constrained. Testing the CAISO BAA for structural competitiveness should not be reliant on comparing a CAISO price to a distant region that may have a higher price due to market power. The CAISO should eliminate this trigger criterion or consider the DMM's proposal to only compare the CAISO BAA price to EIM BAA's that have passed the upward flexible ramping sufficiency test.

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.

In the draft final proposal, the CAISO switched from proposing a 3-pivotal supplier test on the real time energy markets, to proposing a pivotal supplier test in HASP. This change then allowed potentially thousands of more megawatts of import supply to be considered as pivotal supply, regardless of price as long as the import bids did not exceed the transmission limitations. With 44,400 MW of physical intertie transmission capacity¹ there is the potential for import bids to overwhelm this test and make it incredibly difficult to fail.

If the CAISO is going to perform a pivotal supplier test in HASP, then the CAISO should only include competitively bid imports and must consider import supply as potentially pivotal. Speculative import bids at or near the price cap should not be considered as competitive supply in the CAISO's 3-pivotal supplier test. These types of import bids that has no physical supply behind them could be used to game the pivotal supplier test in HASP the way the test is proposed currently. The CAISO should calculate a competitive benchmark for import supply that only considers imports at or below that competitive benchmark price to ensure that the pivotal supplier test cannot be gamed. Just because there are physical limits at every intertie does not guarantee that all the import bids that could clear that intertie are competitive.

Further, the CAISO is reliant on import supply to meet demand and will become increasingly so in the future. It is inconsistent for the CAISO to say that the CAISO relies on import supply for reliability, but then call all imports fringe and non-pivotal in this initiative. Supply from imports should be treated no differently than internal supply when the CAISO determines supplier affiliate groups, especially if the CAISO is going to test in HASP and consider all the potential additional import bids in the test.

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.

In the draft final proposal, the CAISO proposed a competitive LMP that was the max of the four original test triggers, including \$100/MWh, the proxy cost option, the shaped bilateral hub price, and the next highest marginal energy cost in the same market interval of a BAA in the EIM.

¹ Maximum Import Capability Stabilization and Multi-Year Allocation Second Revised Straw Proposal. Page 17

PG&E explained in Section 1 of these comments why the shaped bilateral hub price should not apply for CAISO's system market power mitigation design.

Furthermore, if the only resources that are proposed to be mitigated under this design are resources within the CAISO BAA, then only the CAISO BAA gas prices should be used in the proxy cost option of a hypothetical gas peaker plant. As before, the CAISO should only consider PG&E Citygate and SoCal Citygate gas prices for its proxy cost option.

As one of the competitive LMP options, the CAISO should propose the lowest priced EIM BAA as an option rather than the second highest priced EIM BAA region. As PG&E stated in Section 1 of these comments, PG&E does not believe that the CAISO should have to be highest priced EIM BAA to trigger the 3-pivotal supplier test. Additionally, PG&E does not believe that the second highest priced EIM BAA should be one of the proxy cost options. The second highest EIM BAA may also have uncompetitive prices influenced by market power. The CAISO be more assured that it is ultimately using a competitive price for the competitive LMP if it uses the lowest priced EIM region as the competitive LMP price.

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.

Import RA energy with a must-offer obligation should be subject to mitigation if its supplier affiliate group is pivotal. The changing structure of the import RA requirements will make mitigation of those bids much more feasible. Import RA resources should be treated comparably to internal generation in applying mitigation measures to the degree feasible. In the FERC Order 831 initiative the CAISO is working to ensure that imports go through the same or similar cost verification process as internal generation to be eligible to set the market price above \$1,000/MWh. With no requirement for import RA to bid competitively from the CPUC and no mitigation from the CAISO, import RA is product simply for counting purposes that offers to CAISO no advantage or guarantee that it can be obtained at a reasonable price.

The CPUC's recent OIR regarding import RA resources stated that dynamically scheduled import RA resources must either be pseudo-tied resources or resource-specific resources with a resource ID in its RA filing that is listed on a matching CAISO supply plan. The CAISO should have all the information it needs in its master file to mitigate pseudo-tied resources. Further, it should not be too difficult to come up with a reasonable approximation of an incremental energy import bid that reflects an imports start-up cost. The exercise of determining the best method to mitigate import

RA that is resource-specific should not be the hurdle that stops the CAISO from proposing to mitigate import RA.

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.

If the CAISO is hesitant to move forward with any of these elements due to concerns about over-mitigation, CAISO should consider the merits of including an additional 20% adder to resources DEBs, to the extent that the CAISO believes its inability to precisely determine and mitigate to the true marginal cost of a resource will result in inefficient dispatch.