



## Stakeholder Comments Template

### System Market Power Mitigation

This template has been created for submission of stakeholder comments on the 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](mailto:initiativecomments@caiso.com). Submissions are requested by close of business **January 10, 2019**.

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.**

Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) System Market Power Mitigation straw proposal.

PG&E appreciates the CAISO starting an initiative to cover this important topic. We think that system market power mitigation is important not only to ensure the CAISO's own principle that energy prices should reflect marginal cost of resources, but also important to the ratepayers of California who bear the costs of our energy market. Creating a design for system-level market power mitigation when the system is constrained is a step in the right direction.

While PG&E supports the CAISO effort, two minor changes are needed to make the mitigation effective:

1. CAISO should subject more intervals to a structural competitiveness test, including when only a single intertie is constrained.
2. CAISO should apply mitigation to Resource Adequacy (RA) imports as well as internal generation.

Additionally, PG&E asks for an analysis and examples of how system and local market power mitigation would interact.

Finally, PG&E requests CAISO explain how the CAISO's real-time only market power mitigation would be effective in light of the CAISO's proposal in the RA Enhancements where must offer obligations would be applicable for RA resources in the day-ahead market only.

## 1. Background and scope

Please provide your organization's feedback on background and scope of this initiative, as described within the straw proposal. Please explain your rationale and include examples if applicable.

PG&E appreciates the CAISO beginning an initiative to tackle system market power. With the changing nature of California's resource fleet, a system market power mitigation design should be implemented to ensure competitive outcomes in all intervals. Additions of solar and wind combined with the retirement of gas resources have tightened supply conditions, heightening concerns about market power. Rather than letting suppliers bid high and economically withhold from the market, the CAISO should ensure competitive market outcomes through system market power mitigation.

When true scarcity exists, the CAISO has an already established scarcity pricing mechanism to administratively set high penalty prices if there is not enough supply to clear the energy and Ancillary Service markets simultaneously. PG&E supports this scarcity pricing mechanism. This definition of scarcity pricing is clearly defined rather than vague notions of "scarcity pricing" when demand is high. This use of the term is confusing scarcity with market power. Uncompetitively high bids that result in economic withholding and higher clearing prices should be prevented in the CAISO energy market as they are not reflective of marginal cost. PG&E agrees with CAISO's principle that energy prices should reflect the marginal cost of the highest cost resource used to meet demand.

## 2. Phased approach

Please provide your organization's specific feedback on the proposed phased approach, as described within the straw proposal. Please explain your rationale and include examples if applicable.

PG&E understands the CAISO's efforts to separate system market power mitigation into two phases so that phase one changes can be implemented quickly and prior to the summer of 2021. While high energy market prices did not necessarily materialize in the summer of 2019, we still view high prices from high summer loads as a significant concern going forward. PG&E views system market power mitigation in the day-ahead market as much more important since ~90% of energy costs are incurred from the day-ahead market and unit commitment is determined through the day-ahead market. We understand that real-time system-level mitigation may be easier to implement due to existing technical functionality and the uncertain nature of the day-ahead market due to the CAISO's EDAM and DAME initiatives. If day-ahead market mitigation is not to be a part of this current phase of the initiative, PG&E thinks it is important to start Phase 2 quickly and develop day-ahead mitigation in concert with the other day-ahead market initiatives rather than waiting for them to be complete.

PG&E also believes CAISO should work through examples on how real-time mitigation combined with arbitrage from virtual bids would effectively mitigate market power. For example, PG&E requests CAISO explain how the CAISO's real-time only market power mitigation would be effective in light of the CAISO's proposal in the RA Enhancements where must offer obligations would be applicable for RA resources in the day-ahead market only.

### 3. Applying import-constrained trigger

Please provide your organization's specific feedback on reasonable ways to identify when the CAISO should consider itself import-constrained. Please explain your rationale and include examples if applicable.

The CAISO proposal assumes that the entire WECC area is competitive and when CAISO's major interties have available capacity, the CAISO's electricity markets have access to this competitive supply and are thus also competitive. Proposing that the CAISO balancing area should only be tested for market power when all 3 major interties are binding, CAISO assumes that there is sufficient competitive supply available to CAISO when either 1 or 2 of the three major interties are binding. No study has been done on the competitiveness of the WECC market, but PG&E may concede for now that when no major interties are constrained there is likely sufficient competition such that additional mitigation is not required. However, once one major intertie is constrained, there is less assurance that the combined CAISO and unconstrained WECC area has sufficient competition to discipline bidding behavior. PG&E believes it is appropriate to then perform a 3-pivotal supplier test because the CAISO is import constrained and thus connected to what may be a structurally uncompetitive partial section of the WECC. PG&E understands the desire not to over mitigate the CAISO electricity markets on a system-level, however requiring that all 3 major interties be constrained in order to run a 3-pivotal supplier test severely under mitigates and assumes that chunked off sections of the WECC are competitive when no such study has been do to show that is true.

Additionally, the current CAISO test structure does not identify other constraints in the WECC area that would limit supply's ability in California. Without such a real-time analysis of transmission constraints limiting supply, CAISO should be more conservative and apply the 3-pivotal supplier test more frequently.

### 4. Pivotal Supplier Test

Please provide your organization's feedback on the proposal to apply the Pivotal Supplier Test, as described within the straw proposal. Please explain your rationale and include examples if applicable.

PG&E supports the CAISO using a 3-pivotal supplier test to determine whether market power exists once the CAISO is considered import constrained. PG&E agrees with the CAISO that it should only use the amount of supply that could be feasibly ramped to in a given interval when conducting the test. PG&E also agrees that net imports, either through EIM or non-EIM, should be cleared imports to avoid gaming of the RSI calculation by submitting large bids at the price cap that will not clear to skew the results of the test.

While PG&E understands the concept of subtracting out the supply from pivotal suppliers in the numerator, the language in the presentation is confusing, saying that the internal pivotal supply offers are the down-ramp sum of all offers from pivotal suppliers. PG&E would appreciate the CAISO walk through additional examples of the application of the 3 pivotal supplier test in the next stakeholder meeting.

**5. Applying mitigation to internal supply offers**

Please provide your organization's feedback on the proposal to mitigate supply offers within the CAISO balancing authority, as described within the straw proposal. Please explain your rationale and include examples if applicable.

PG&E agrees with mitigating internal offers, however PG&E believes that CAISO should apply a consistent treatment for import RA offers and apply system market power mitigation. When the CAISO lacks sufficient competitive supply, the RA resources being paid for the capacity should have comparable rules to ensure CAISO receives competitive bids. Mitigation ensures that those bids are competitive. CAISO could potentially use design elements in the FERC Order 831 to develop a default energy bid for imports.

**6. Determining competitive LMP**

Please provide your organization's feedback on the proposal to determine the competitive Locational Marginal Price (LMP) when the CAISO mitigates its balancing area, as described within the straw proposal. Please explain your rationale and include examples if applicable.

**7. Additional comments**

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