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System Market Power Mitigation

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.

PPC appreciates the opportunity to provide feedback on CAISO's System Market Power Mitigation Straw Proposal. PPC represents the interests of nearly 100 public and consumer owned utilities in the Northwest. PPC's members are interested in the potential development of this policy from several perspectives: as purchasers of preference power and transmission services from BPA (which is planning to join the EIM in 2022), as load serving entities in the current and/or future EIM footprint, and as possible and planned EIM participants themselves.

PPC continues to be concerned that this price formation topic has been prioritized over other price formation issues. Analysis to date prepared by CAISO staff and the Department of Market Monitoring (DMM) has not demonstrated the CAISO BAA currently has a problem with the exercise of system market power. Staff and DMM analysis estimated that the CAISO balancing area was potentially uncompetitive in only 2%-3% of hours in 2017 and 2018[1]. The Market Surveillance Committee, in its November 2019 Opinion on System Market Power Mitigation, reviewed these analyses and concluded "there might have been some limited potential for market power at the system level, but, according to analyses of prices and costs that have been carried out to date, this market power has not been exploited very frequently or aggressively"[2]. Additional analysis in DMM's 2019 Q3 report showed 2019 was on pace to have a significant reduction in hours which the CAISO BAA was potentially uncompetitive[3]. These analyses taken together lead PPC to believe that the price excursions that have prompted concerns over system market power are the result of tightening conditions in CAISO and not the exercise of market power. PPC still questions whether this initiative is necessary currently and advocates for a "wait and monitor" approach.

Despite the fact that little to no market power at the system level has been exercised in recent years, PPC understands that load within CAISO and the DMM remain concerned

[1] "Analysis of Structural System-Level Competitiveness in the CAISO Balancing Authority Area, Revised Version" September 3, 2019, http://www.caiso.com/Documents/RevisedWhitePaper-SystemMarketPowerAnalysis.pdf
[2] Market Surveillance Committee, "Opinion on System Market Power Mitigation," November 5, 2019. http://www.caiso.com/Documents/MSC-DraftOpiniononSystemMarketPowerMitigation-Nov5_2019.pdf
[3] Department of Market Monitoring "Q3 Report on Market Issues and Performance" December 5, 2019, http://www.caiso.com/Documents/2019ThirdQuarterReportonMarketIssuesandPerformance.pdf. The Q4 report did not report the total number of hours for the complete year.

that anticipated changes in the CAISO resource mix could increase the potential for the system market power. As thermal resources retire and are not replaced with resources demonstrating the same characteristics, the number and capacity of resources available to meet grid demands will decrease – potentially leading to additional entities exploiting market power at the system level.

PPC believes the same changing resource mix will also have the effect of increasing CAISO's reliance on voluntary economic offers of imports to meet grid needs. Given this context, PPC believes it is vital to take the time to carefully develop a reasonable framework that addresses the exercise of system-level market power without discouraging voluntary economic import offers. PPC agrees with CAISO staff that this is best achieved through policy and market design that results in competitive, accurate and efficient price formation. Despite PPC's reservations regarding the need for this initiative, we supported CAISO's previous proposal as a reasonable approach to meet this objective.

The revised straw proposal published April 8 does not achieve this objective. The proposed modifications to the pivotal suppler test trigger results in a design that no longer reasonably measures when CAISO is cut off from other competitive markets in WECC, and therefore potentially becomes uncompetitive. The new design will likely lead to distorted price signals through over mitigation, which could discourage suppliers from making import offers in CAISO markets. These distorted prices signals will likely occur when the CAISO grid faces tight supply conditions, which would exacerbate system market power concerns and reduce import supplies in times when these imports are most needed.

PPC suggests that CAISO should take a more holistic approach to price formation issues. CAISO should continue to develop this proposal as it explores a broader range of price formation issues. Taking a more complete approach to addressing concerns expressed by stakeholders will result in more durable solutions and avoid unintended consequences.

1. **Pivotal Supplier Test Trigger**

PPC does not support the revised pivotal supplier test trigger. The CAISO market power mitigation framework is based upon the principle that the CAISO BAA is potentially uncompetitive when it loses access to external competitive markets in WECC. This condition occurs when the CAISO BAA is import constrained because of transmission limitations. This triggering mechanism is an important screening step in the market power mitigation framework. It is necessary to ensure that bid mitigation cannot occur in intervals when the CAISO has access to external competitive supplies. Developing a trigger that identifies when CAISO is import constrained – as accurately as possible – is essential because the subsequent pivotal supplier test which determines when resources are actually mitigated is imperfect.

It is unrealistic to assume that CAISO will be cut off from competitive west-wide supply when an EIM transmission path into the CAISO BAA binds. EIM transmission is only a small subset of the larger intertie bidding framework and a poor representation of the potential for CAISO to access external markets. For example, transmission from the Pacific Northwest into the CAISO BAA is nearly 5000 MWs on the California Oregon Intertie (COI) and Pacific Direct Current Intertie (PDCI). EIM transmission on those interties is usually a few hundred MWs and available only on the COI. Under the new proposal, the PDCI, one of the largest interties that connects to CAISO's BAA, would no longer be included when assessing CAISO's access to competitive west-wide supply.

The new design will likely lead to distorted price signals through over mitigation, which will discourage suppliers from making import offers in CAISO markets. These distorted prices signals will likely occur when the CAISO grid faces tight supply conditions exacerbating system market power concerns and reducing import supply in times when it is needed most. These effects will not be limited to the real-time market as virtual bidding will converge the day-ahead market towards the over-mitigated real-time prices.
PPC believes additional analysis is needed to understand the potential impacts of this revised test. In the revised proposal, CAISO estimated that this test would trigger in 28% of intervals. Additional information on what hours and seasons those 28% of intervals occur and how often a 3PS test would actually mitigate offers will help stakeholders make a more informed evaluation of the proposal.

2. **Pivotal Supplier Test Design**

PPC supports the improvements to the pivotal supplier test design. Including import offers and offers from EIM participating resources as well as accounting for net seller load-serving obligations are positive steps in improving the test. However, even with improvements to the test design, the pivotal supplier test is still only a test that indicates the potential for the exercise of market, not that it was exercised. For that reason, PPC believes that without a robust test for when to run the pivotal supplier test, over mitigation will likely occur.

3. **Determining competitive LMP**

PPC supports CAISO developing a new competitive LMP when the CAISO BAA is uncompetitive. This is a step in the right direction. A competitive LMP is an important tool to ensure resources are not mitigated below the prices that occur in a competitive area. Similar to the concerns raised above, the proposal's focus on the EIM is too narrow. PPC suggests the competitive LMP include bilateral hub prices in the calculation of the competitive LMP.

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

PPC strongly agrees with the proposal to only apply mitigation to internal supply offers of market participants that are pivotal. Mitigating import offers would be inappropriate and ineffective in eliminating the opportunity to exercise market power. CAISO staff has acknowledged that it may be appropriate to mitigate import offers if the broader WECC is uncompetitive and if the import suppliers are pivotal suppliers to WECC. However, to date, PPC has seen no evidence that the broader WECC is uncompetitive and that import suppliers are pivotal in setting prices in WECC. Even under circumstances of an uncompetitive WECC, mitigating import offers would lead to detrimental outcomes to load in the CAISO. Entities that make voluntary offers at CAISO interties may choose to sell into other western markets when they anticipate mitigation. This would raise energy prices in CAISO and exacerbate supplier concentration within CAISO. Mitigating a broader uncompetitive area would also require information that the CAISO does not have and is the purview of FERC, not the CAISO.

5. **Additional comments**

PPC appreciates the opportunity to provide comments on the CAISO's System-Level Market Power Mitigation Revised Straw Proposal. We encourage CAISO to continue to produce analysis to inform development of this proposal. In particular, we would be interested in understanding:

- What hours and seasons do those 28% of intervals occur and how often would a 3PS test actually mitigate offers?
- In the 28% of hours where EIM transmission into CAISO is binding, how much capacity remains on the non-EIM portion of the path? Does EIM transmission binding correspond to when the path, as a whole, is binding?
- In the 28% of hours where the pivotal supplier test would have triggered under the new proposal, did intertie capacity exceed import bid quantity? How did prices in CAISO compare to other bilateral market hubs?
- Were the 2-3% of hours where CAISO believes that there was the potential for exercising system-level market power included in the 28% of hours where the pivotal supplier test would have been triggered?