Western Power Trading Forum Comments on LMPM Enhancements 2018 Revised Straw Proposal

Carrie Bentley - Gridwell Consulting for WPTF - Cbentley@gridwell.com

The Western Power Trading Forum

The Western Power Trading Forum (WPTF) is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability. WPTF supports uniform rules and transparency to facilitate transactions among market participants. The membership of WPTF and the WPTF CAISO Committee responsible for providing these comments include CAISO and EIM entities, load serving entities, energy service providers, scheduling coordinators, generators, power marketers, financial institutions, and public utilities that are active participants in the California market, other regions in the West, and across the country.

Summary

WPTF appreciates the opportunity to submit comments on the CAISO's Local Market Power Mitigation Enhancements 2018 Revised Straw Proposal posted on November 16 and the stakeholder call held on November 28. The CAISO has clearly put a lot of effort and thought into this initiative and we look forward to continuing discussion with CAISO staff to progress the policy to a final state. As iterated in our last comments, as the CAISO looks toward extending the day-ahead to EIM, WPTF encourages the CAISO to develop a long-term plan that both fixes immediate issues and makes sense in the context of significantly expanded EIM participation in the day-ahead market. The long-term plan may necessitate re-evaluating the current test for market power on transfer limits as the suppliers able to serve EIM increase, and thus competition.

WPTF is generally supportive of the proposal and asks for additional discussion and clarification of some elements to ensure the proposal will achieve the desired outcome without unintended consequences. WPTF understands it is not the general policy of the CAISO to conduct testing of proposals prior to approval, thus WPTF encourages the CAISO to evaluate how effective the changes have been shortly after implementation. The analysis can then be used to determine if any modifications at that time are warranted.

Our Detailed Comments below support the following positions:

- WPTF is supportive of the CAISO's efforts to eliminate existing rules to improve application of mitigation that results in EIM entities selling energy at a price below what they were willing.
- WPTF is generally supportive of the CAISO's efforts to develop market design enhancements that prevent flow reversal but seek additional clarification and discussion on the nominal adder and export transfer constraint.
- WPTF is generally supportive of the Hydro DEB option but seeks additional clarification and encourages the CAISO to ensure all resources can reflect appropriate opporutntiy costs, and that the DEBs be sufficiently high enough to optimally dispatch the resources.

Detailed Comments

Mitigation Framework Enhancements

WPTF continues to support the CAISO's proposed changes to the "mitigation-by-extension" rules as a way to prevent mitigation from resulting in EIM entities being forced to sell energy at a price below what they were willing. Eliminating the rules will further align the mitigated bids with the competitive price in the interval for which the resource is being mitigated. WPTF appreciates the CAISO recognizing that these existing mitigation rules are resulting in misapplication of mitigation and is proposing to eliminate the rules.

WPTF appreciates the additional discussion provided in the Revised Straw Proposal on the nominal adder and export transfer constraint. Both the nominal adder to the competitive LMP and the limitation on transfers between EIM BAAs within an import constrained bubble do address the flow reversal and economic displacement concerns. WPTF asks the CAISO to illustrate how the nominal adder will function when there is also internal congestion, as discussed below, and consider any implications if these design elements were implemented under an extended day-ahead market structure.

It if WPTF's understanding that the competitive LMP within an EIM BAA varies by resource within that EIM BAA and is also impacted by internal congestion as well congestion on the import transfer limit. Given this understanding, WPTF asks the CAISO to confirm that some competitive LMPs with the nominal adder will still be lower than the competitive LMP outside the EIM BAA and discuss potential outcomes of such a scenario. For example, if an EIM BAA does not opt for the export transfer constraint, can there be cases in which flow reversal still occurs with the nominal adder? Is it the case that only when both the nominal adder and export transfer constraint are implemented in an EIM BAA that flow reversal will be prevented in all cases? WPTF appreciates the CAISO identifying potential foregone opportunities and concerns when EIM BAAs opt for the export constraint rule and asks if this additional dependency of the two proposal elements should also be noted.

WPTF generally supports the optionality of the export transfer constraint as it embodies the voluntary nature of the market but seeks additional clarification. As previously noted, WPTF believes additional discussion is needed on the interaction of the export transfer constraint and the nominal adder when there is internal congestion as well. Additionally, the CAISO stated that they anticipate the optionality of the rule being a semi-static parameter in MasterFile. Scheduling coordinators today can change Masterfile parameters on a daily basis but there is a 5-business day lag before those changes are reflected in the market. Does the CAISO intend to monitor how frequently the parameter is modified or will there be a clear expectation provided in documentation?

WPTF believes additional discussion is warranted on how these market design elements will fit in an extended day-ahead market structure. On the November 28 stakeholder call, the CAISO noted they intend for these market design elements to be applicable under an extended day-ahead market structure that includes EIM participation. WPTF would appreciate additional discussion on if any of the proposed elements would need slight modifications (e.g., changes to formulations) under such a structure, or if there are any potential concerns. For example, if the export transfer constraint is also applied in the day-ahead market does that introduce potential gaming concerns with the CRR market given that the CRRs would be extended to the EIM areas. This could also potentially create a disconnect between the CRR and day-ahead models.

In our last comments, WPTF questioned the potential pricing impact of the nominal adder. We agree that so long as the nominal adder is minimal ($0.001), the impact on pricing should be negligible. However, WPTF asks the CAISO to commit to conducting an analysis after six to twelve months of implementation to evaluate how effective the nominal adder is for preventing cases of flow reversal, economic displacement, and its impact on congestion and pricing.

Hydro DEB Option

WPTF appreciates the continued progress on the default energy bid element of the proposal and believes the additional information provided in the Revised Straw proposal is extremely beneficial. This iteration of the DEB option is a step in the right direction and addresses most of the issues raised by stakeholders thus far. WPTF has a few remaining concerns with the proposal, as discussed below, and seeks clarification on a few aspects as well.

WPTF appreciates the CAISO's modification in this iteration that makes the proposed DEB option available to any hydro resource with storage, not solely EIM Hydro resources. This modification moves the proposal closer towards being technology and fuel agnostic but still limits the proposed DEB option to hydro resources with storage. WPTF understands that it's not always reasonable to be purely technology and fuel agnostic, but ultimately will have to be approved by FERC. Ideally the option would be made available to any resource type with opportunity costs and allow each market participant to decide which option is best suited for each resource. While this may have little impact on which resources end up using the proposed DEB option, it allows this proposal to be technology and fuel agnostic.

A key element in the discussion of opportunity costs for EIM hydro resources has been the recognition that these resources face bilateral market opportunity costs as well. There appears to be a potential discrepancy between how the latest proposal addresses bilateral opportunity costs for hydro resources, assuming bilateral opportunity costs also reflect a resource's option of, within a given interval, selling to either the EIM or another bilateral market. It is unclear to WPTF why a hydro resource with storage will be able to reflect bilateral opportunity costs but a hydro resource without storage that has the same opportunities cannot reflect those opportunity costs. Run of river resources that have storage at the top of the cascade, or have contracted for storage, should be able to apply that storage limitation to the run of river system and thus opt for the Hydro DEB option; these resources too may also have the option of selling to multiple locations within a given interval.

The additional analysis presented by the CAISO in this iteration provides important insights into the reasonableness of the proposed scalars to be used in the DEB formulation. WPTF appreciates the increase in the proposed scalars but, as discussed on the call, could still result in inefficient use of resource's limited water. There were a few options discussed on the call that could help mitigate this from occurring. The CAISO could consider adjusting how the gas floor component of the DEB is determined or use a higher scalar. Additionally, a resource with multiple bilateral opportunities will sell to the one with the highest price. Thus, the CAISO should use the max of the indices, not the weighted average. WPTF looks forward to additional discussion from the CAISO regarding these potential modifications and encourages the CAISO to consider re-evaluating the scalars and/or gas floor routinely to determine if they should be increased after gained experience.

WPTF would appreciate additional discussion around the hub prices made available to resources under the short-term and long-term DEB formulations. It is WPTF's understanding that the short-term default energy bid formulation will only have the ability to reflect the designated default bilateral trading hub. Whereas resources under the long-term default energy bid formulation can have hub prices that are accessible with firm transmission rights and may be further away from the resource's location. WPTF is unclear why resources with less than three months of storage, if they also have the same opportunities to sell at locations further away, are unable to opt for those hub prices as well.

WPTF seeks clarification on the following aspects of the Hydro DEB option:

- How will hydro resources with storage less than one month be handled? During the call, the CAISO noted that resources with less than one month will "likely" use the short-term DEB formulation but can use additional clarification. How will the CAISO determine when such a resource will use the short-term DEB versus when it won't? In cases when the CAISO determines the resource will not use the short-term DEB, will they fall under the negotiation process or have another formulaic approach? WPTF believes these resources should use the short-term DEB formulation and would appreciate additional details to be included in the next iteration.
- How does this hydro DEB option impact or fit within the process of obtaining opportunity costs under Commitment Cost Enhancements Phase 3? There is a lot of overlap between the proposals herein and the processes laid out in CCE3. WPTF asks in the next iteration that the CAISO clearly explains the processes under CCE3 that hydro resources seeking the Hydro DEB option need to follow as well as any other intersections of these two policies. For example, will the resources have to complete the use-limited data template? Will there be an indicator as to what resources opt for the Hydro DEB option versus those that use the opportunity cost calculation versus those that continue having negotiated opportunity costs or DEBs? If a resource has a daily limitation will it still qualify for the Hydro DEB option since the current use-limited definition excludes such limitations from qualifying as use-limited?

WPTF thanks the CAISO for consideration of our comments.