



# System-level Structural Competitiveness

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# Background

- The CAISO is concerned that its metrics indicate growing uncompetitive conditions at a ***system-level*** in the CAISO balancing area
- The CAISO is evaluating whether it is appropriate to apply system-level market power mitigation to its balancing area
- Potential policy development would not change the existing EIM market power mitigation design

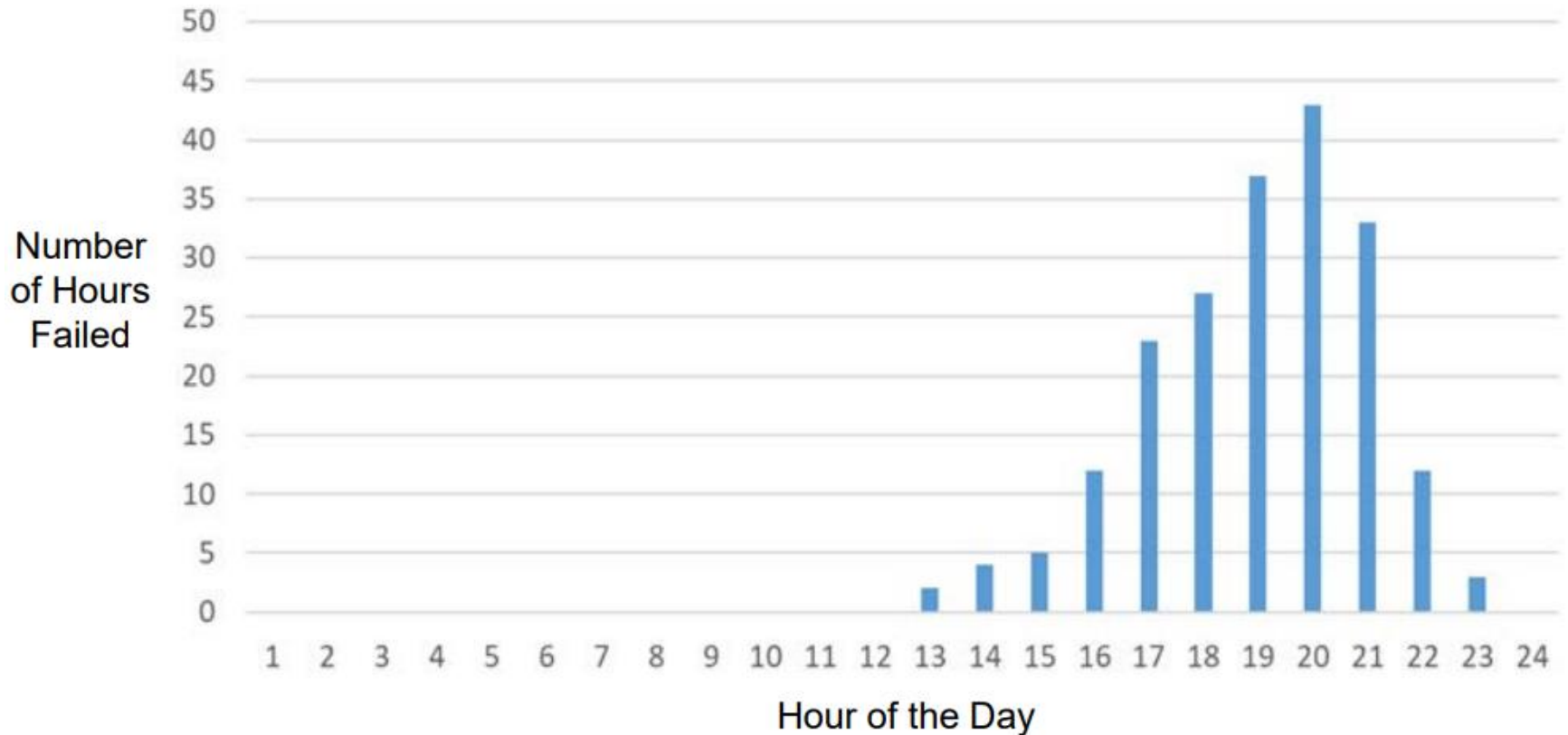
# Background

- Energy Imbalance Market balancing areas outside the CAISO are already subject to system-level market power screens
- EIM market power screens assume the CAISO energy price is competitive
  - When an EIM balancing area is import constrained, system-level market power mitigation is applied to the EIM balancing area
  - Resources are mitigated to the greater of their default energy bid or the CAISO competitive energy price

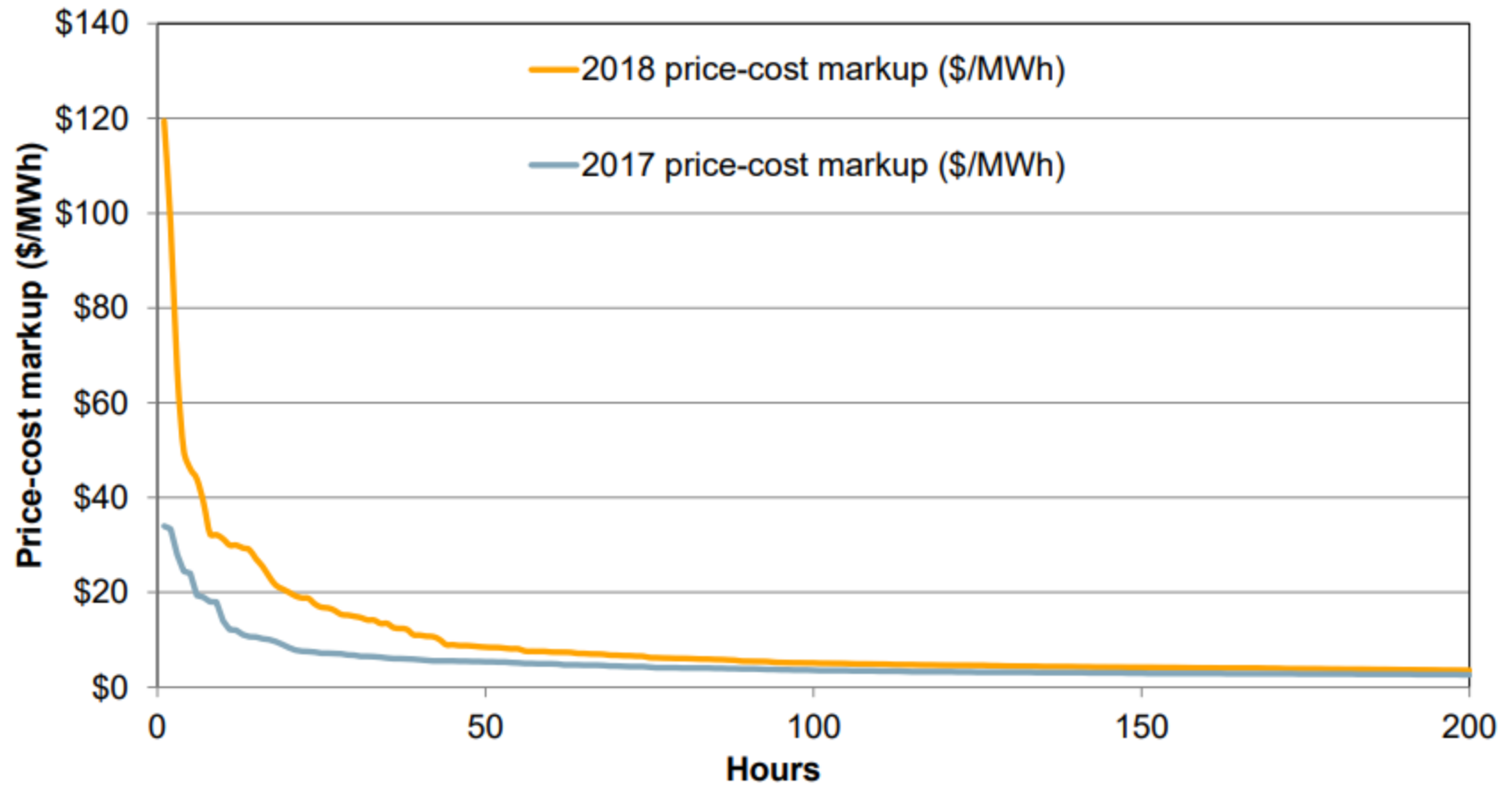
# Structural competitiveness

- When market conditions are structurally uncompetitive, suppliers may be able to exercise market power and raise energy prices by withholding supply from the market
  - Suppliers may economically withhold by offering supply to the market above marginal costs
  - The revenues a supplier earns on its remaining energy offers exceed the revenues it foregoes by withholding because energy prices are much higher
- The current market design has checks in place to mitigate potential economic withholding during uncompetitive conditions
  - Resources in Energy Imbalance Market balancing areas are subject to local area checks and balancing area wide checks
  - Resources in the CAISO balancing area are subject only to local area checks

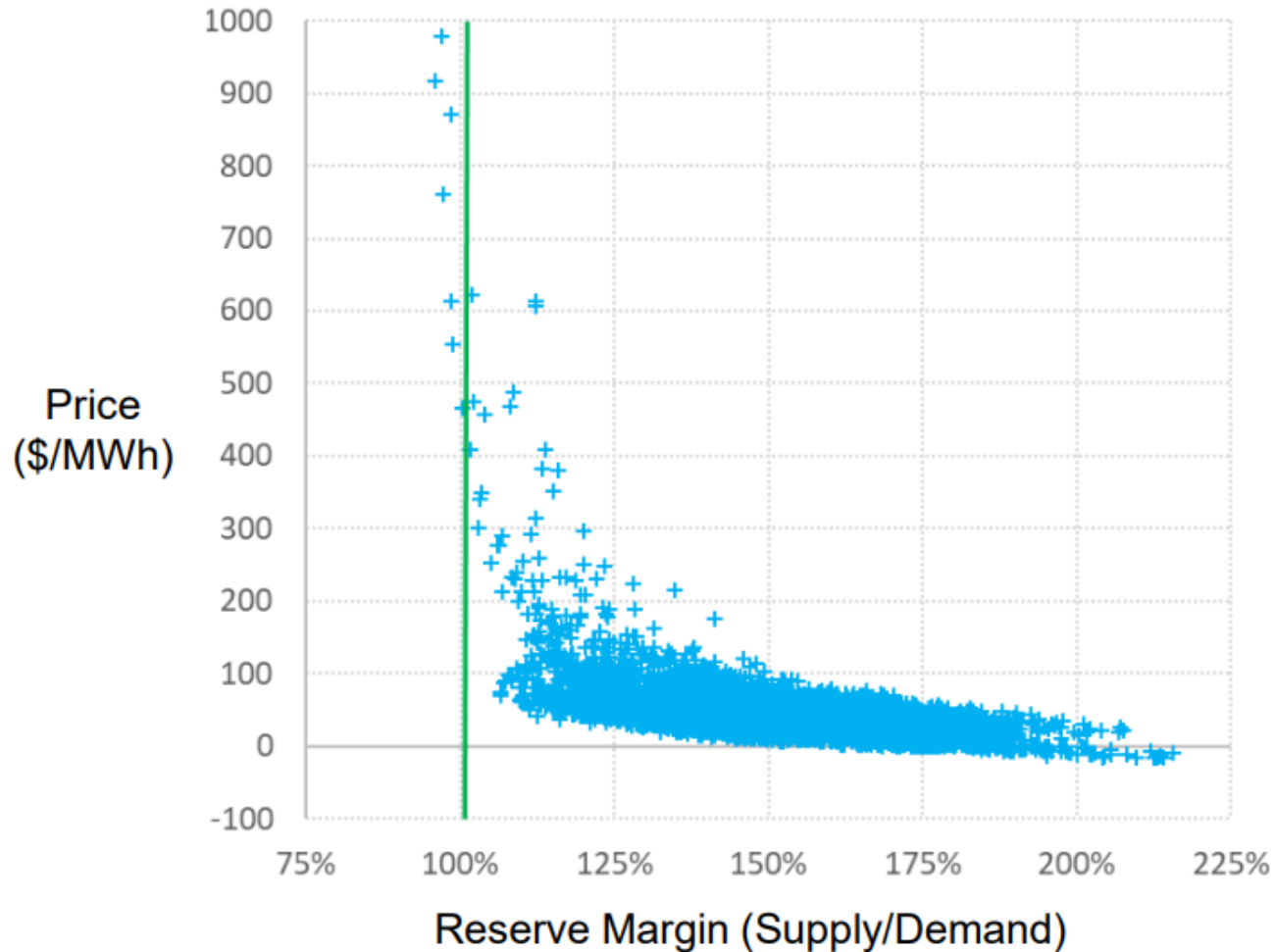
The residual supply index generally falls short during the net load peak hours when supply is tight



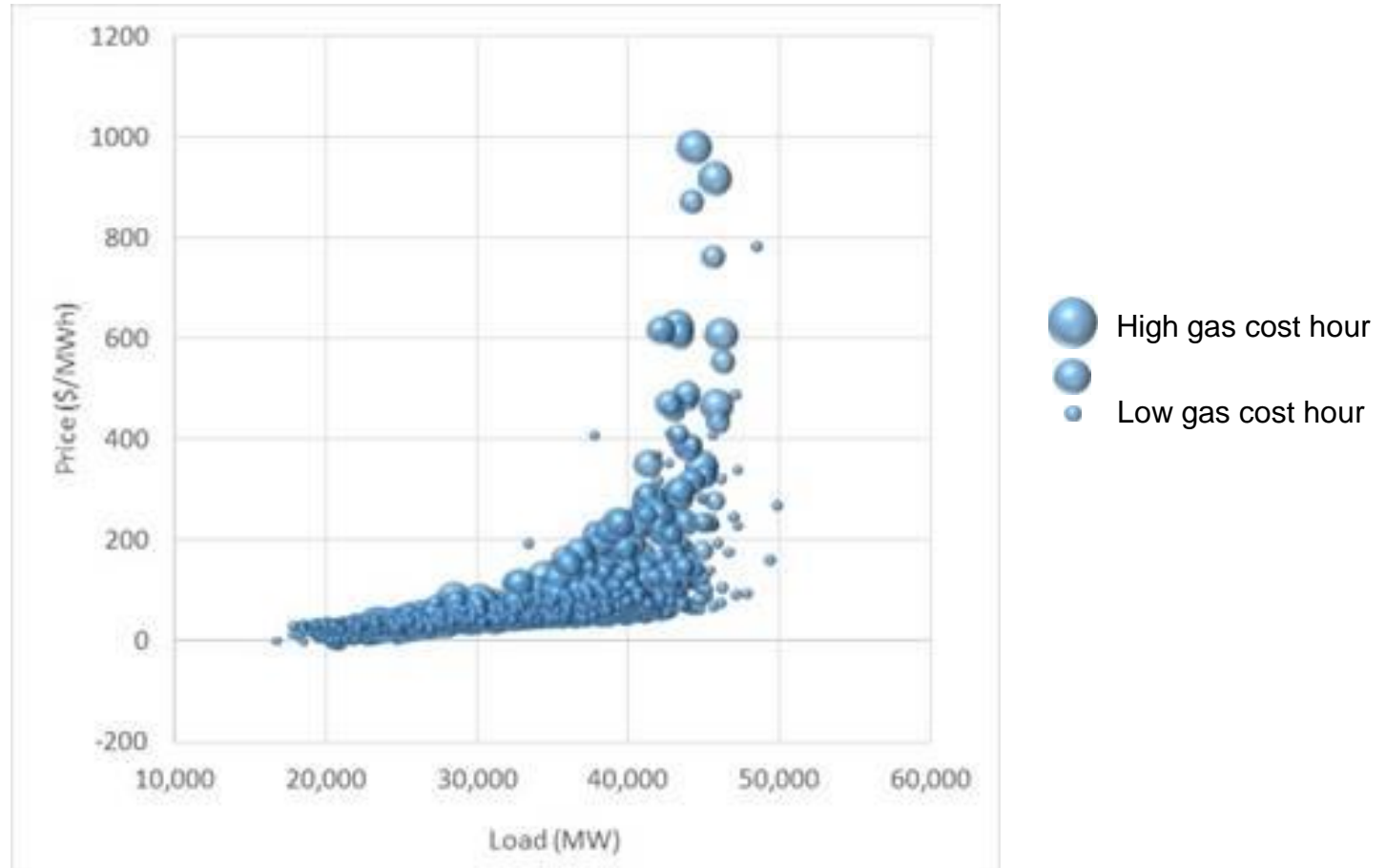
# Price-cost markups were above \$20/MWh in 20 hours in 2018



# High day-ahead market prices typically occur when supply is tight



# Day-ahead market prices correlate with high natural gas prices and high load levels





## Next steps

- Continue discussions on the appropriate response with stakeholders and Market Surveillance Committee
  - September stakeholder working group meeting
  - October Market Surveillance Committee meeting
- Plan to brief the Board of Governors in November on determination of appropriate measures to address system market power concerns
  - Market Surveillance Committee will provide a written opinion on what measures should be taken to address system market power