

Chelan Public Utility District
327 N Wenatchee Ave
Wenatchee, WA 98801

March 8, 2019

Dear EIM Governing Body Members,

Chelan Public Utility District (Chelan) would like to reiterate its support for the CAISO's Local Market Power Mitigation Enhancements, Draft Final Proposal, and requests the EIM Governing Body adopt the proposal without modification. Chelan is currently not participating in the Western EIM but follows EIM development closely. CAISO's existing market power mitigation framework—and the resulting inappropriate mitigation of out-of-state hydro—is one factor that discourages Chelan from joining the EIM.

Chelan acknowledges the challenges associated with developing a mitigation framework that simultaneously adequately protects against market power and adequately reflects the highly complex opportunity costs of hydro resources. Throughout the stakeholder process, Chelan was encouraged by the collaborative nature of the effort and believes the process resulted in a mitigation approach that likely no longer discourages Northwest hydro resource participation. For a hydro owner like Chelan, it was critical to develop a default energy bid formula that adequately captures opportunity costs and by extension adequately addresses hydro owners' risk tolerances for potential inefficient depletion of reservoirs. Chelan agrees with CAISO staff that the proposed default energy bid formula may result in default energy bids that are too low for specific resources, particularly those with very limited water availability. However, Chelan also agrees that CAISO's proposed approach—on balance— results in a reasonable reflection of a wide variety of hydro resources' opportunity costs.

Because the hydro default energy bids will be calculated based on a standardized formula, the design elements of the formula must be evaluated holistically when determining whether the formula adequately captures opportunity costs. Chelan believes using the max of the three different floors CAISO identified—a gas price floor, a short-term floor and a long-term/geographic floor (that includes pricing at multiple trading hubs depending on transmission rights)—is a workable approach with the associated multipliers. The other elements of the draft final proposal, in particular the proposed solutions for preventing flow reversal and economic displacement, are also important. Chelan's support for the proposal is based on its assessment that the proposal, when evaluated as a package, appropriately balances the need to protect against market power with hydro owners' need for reasonable assurances that EIM participation will not result in inefficient dispatch too frequently. A change to, or removal of, any element of the proposal will impact Chelan's assessment.

Chelan encourages the EIM Governing Body to approve CAISO's proposal in its current form and applauds CAISO staff for their efforts and responsiveness to hydro owners' concerns.

Regards,

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