

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System)	Docket No. ER19-2347
Operator Corporation)	
CAISO Tariff Amendments to)	
Enhance Local Market Power)	
Mitigation and Reflect Hydroelectric		
Resource Opportunity		
Costs in Default Energy Bids		

Motion to Intervene and Comments of the National Hydropower Association

The National Hydropower Association (NHA) hereby respectfully submits the following comments in response to the July 2, 2019 tariff amendments filed by the California Independent System Operator (CAISO) in the above-captioned docket. In particular, NHA has been monitoring the CAISO’s efforts to reflect hydroelectric resource opportunity costs in default energy bids (DEBs). We believe that market rules should accommodate, to the extent practicable, the actual marginal costs, opportunity costs and storage capabilities of hydropower. NHA appreciates CAISO’s receptivity to stakeholder input and believes the CAISO’s proposed DEB achieves a reasonable accommodation of hydropower opportunity costs.

I. Motion to Intervene

NHA represents more than 240 companies, from Fortune 500 corporations to family-owned small businesses. Our diverse membership includes public and investor-owned utilities, independent power producers, developers, equipment manufacturers and other service providers. As a national association, we have members across the country, including California and its neighboring states in the Southwest and Pacific Northwest.

Because the determination in this tariff amendment will affect our members, NHA has a direct and substantial interest in this proceeding which cannot adequately be represented by any other party. Given its direct interest, NHA’s motion to intervene is in the public interest, and should be granted.

II. Communications

All correspondence, communications, pleadings and other documents related to this proceeding should be addressed to the following individuals:

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NHA requests that each of the individuals identified above be placed on the Commission's official service list in this proceeding.

III. Comments

In addition to being carbon-free, hydropower can provide a suite of reliability services ranging from flexible capacity, storage, voltage support, regulation, spinning and non-spinning reserves, black start capability and inertia. These services are ideally suited to support a transformed, clean electric grid. Yet many regulatory and market policies are not designed to account for hydropower's unique abilities, value streams, and operational challenges. To ensure hydropower is dispatched for its highest and best use, market rules should fully account for hydropower's opportunity costs, while ensuring there are adequate safeguards in place to protect end-use consumers from excessive or unsupported pricing during periods of actual market power.

Optimal water dispatch is the crucial element of hydropower operation and its highest and best use in the marketplace. As California increases its path toward deep decarbonization of the electric sector, it is more important than ever that hydropower is an active participant in the market. Hydropower can be a strategic partner with wind and solar in achieving environmental outcomes and grid optimization. As the CAISO acknowledges, "[f]oregoing the ability to capture the economic and operational benefits of the flexibility provided by hydroelectric resources is of particular concern given the critical need for flexible ramping capability to

balance system needs.”¹ NHA agrees that reduced participation of “flexible, fastramping, hydroelectric resources will hamper the ability to obtain a least-cost solution for the EIM footprint as a whole, thereby reducing potential benefits.”²

The CAISO recognizes that its existing methodologies for calculating default energy bids do not reflect the opportunity costs of hydropower projects. This can create a disincentive for hydropower to participate in CAISO markets because the mitigated bid may fail to account for the revenue a hydropower resource could receive if it utilized its available water to produce power when it is most needed, and when prices reflect this value. In addition, hydropower resources may have opportunities to transact in bilateral markets or prioritize local loads outside the CAISO. Hydropower also faces regulatory requirements that can limit water use as operators balance the needs of multi-purpose projects.

The CAISO’s proposed default energy bid option better captures opportunity costs for hydropower through a long-term/geographic component and a short-term component. Taken together, this approach is likely to capture much of the value hydropower could receive from optimal dispatch of limited water (both within the day and over a longer horizon) and locational sales opportunities in multiple market hubs. It also includes a gas floor component designed to limit suboptimal hydroelectric dispatch to the price of natural gas. The proposal is transparent, not overly complex, and – because it bases the DEB on the higher of the three potential cost metrics – it is likely to fit a variety of hydropower resources and situations. NHA believes using these three elements to set the DEB is a balanced approach.

The CAISO’s final proposed amendments reflect significant changes from its initial proposal that reflect stakeholder consultations, including input from hydropower providers in the Pacific Northwest that are new or prospective members of the western energy imbalance market (EIM). Successful implementation should pave the way for more robust participation of hydropower resources in the EIM.

NHA is supportive of the CAISO tariff amendments regarding hydropower DEBs and supports timely approval. We believe the approach provides reasonable flexibility, certainty and transparency for hydropower resources participating in the Western EIM. It recognizes the

¹ California Independent System Operator Corporation (CAISO) Tariff Amendments to Enhance Local Market Power Mitigation and Reflect Hydroelectric Resource Opportunity Costs in Default Energy Bids. Docket No. ER19-2347. Page 47.

² Ibid.

operational limitations of hydropower and demonstrates an appreciation for the complexity in calculating hydropower opportunity costs. In practice, the ultimate test of a successful approach will be the attracting of hydropower resource participation in the EIM. Our members look forward to effective implementation

IV. Conclusion

WHEREFORE, NHA submits these comments for the Commission's consideration and respectfully requests that the Commission consider the points raised herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this July 23, 2019.

Dennis Cakert