



Comments of Pacific Gas & Electric Company Extended Day-Ahead Market Issue Paper

Submitted by	Company	Date Submitted
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PG&E appreciates the opportunity to submit comments on the California Independent System Operator's (CAISO) Extended Day-Ahead Market Issue Paper. The extension of the Day-Ahead Market (DAM) to Energy Imbalance Market (EIM) participants will affect nearly every aspect of the DAM. The breadth of the policy considerations and effects of EDAM are immense. PG&E's comments can be summarized as follows:

1. CAISO should focus on the critical issues and allow adequate time to execute with excellence
2. CAISO should add Market Power Mitigation to the scope
3. CAISO needs to be specific regarding the voluntary nature of EDAM

1. CAISO should focus on the critical issues and allow adequate time to execute successfully

In the CAISO issue paper, CAISO lays out a plan to extend participation in the CAISO's day-ahead market to Energy Imbalance Market (EIM) entities that culminates with CAISO presenting the proposal to the EIM Governing Body and to the CAISO Board for approval in Q2 2021.¹ The proposal outlines eleven (11) policy considerations,² many of which are fundamental to the Day-Ahead Market. PG&E believes that this plan is ambitious in both its scope and schedule. PG&E's concern is that an overly ambitious schedule and scope could result in unnecessary errors, oversights, or unintended consequences, weighing down the benefits of extending Day-Ahead participation.

PG&E urges CAISO to descope any non-critical issues to a subsequent phase for adoption. The top goal should be to launch the extended Day-Ahead participation smoothly, without any avoidable errors. Non-critical issues and tariff changes can distract CAISO and stakeholders' attention from the critical issues and increase the chance of avoidable errors. Similarly, setting a design schedule that is too short can limit collaborative discussions and consideration on critical issues and the result in the implementation of a new market design that has not yet been fully vetted.

¹ See Table 1: *Proposed schedule for the EDAM stakeholder process*

² See bottom of page 3 through page 5 for summaries of these considerations.

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Finally, PG&E is concerned with the level of effort needed to implement such a large initiative. From our experience, the CAISO should budget more than one year for implementation on an initiative of this magnitude.

2. Market Power Mitigation needs to be addressed

The CAISO's proposal outlines eleven key policy considerations that cover nearly every aspect of the Day-Ahead Market and how the policies may have to change to accommodate EIM participation. One key issue that was omitted from the issue paper is market power mitigation.

PG&E continues to have concerns with the potential exercise of both local³ and system market power⁴ in the current Day-Ahead Market. Additionally, PG&E is concerned that overly accommodating rules for voluntary participation in the extended Day-Ahead Market adds further risk of the exercise of market power. A key principal laid out by CAISO of the EIM and its extension to the Day-Ahead Market is that participation is to be voluntary: voluntary to join, voluntary to exit, and voluntary in terms of which generation and transmission resources are offered into the market. Market participants will look to profit-maximize within the constraints of the rules. However, allowing profit maximization to occur through withholding of resources through the exercise of market power would lead to inefficient dispatch and unreasonable costs to customers

PG&E requests that CAISO explicitly address Market Power Mitigation in the straw proposal and that CAISO's proposal meet the following criteria:

- Make market power mitigation inherent to the design of EDAM;
- Consider new means of exercising market power that may arise from the interaction of voluntary participation of generation and transmission assets; and

³ *Exempli gratia*, PG&E's comments on Local Market Power Mitigation Enhancements Draft Straw Proposal, October 3, 2018. Accessible here: <http://www.caiso.com/Documents/PG-EComments-LocalMarketPowerMitigationEnhancements-IssuePaper-StrawProposal.pdf>

⁴ *Exempli gratia*, PG&E's comments on System Market Power Analysis, May 20, 2019. Accessible here: <http://www.caiso.com/Documents/PGEComments-SystemMarketPowerAnalysis.pdf>

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3. CAISO needs to be specific regarding the voluntary nature of EDAM

The CAISO's issue paper makes it clear that, for this initiative, that a key principle is *voluntary participation*.⁵ What is not clear are the details of the voluntary decision to participate:

- How and when does the voluntary decision result in a binding obligation in EDAM?
- How and when can a participant choose to opt out of participating in EDAM?
- How and when does a participant choose its supply and transmission resources that are participating for a given market period?

These details matter especially when put in the context of our existing Day-Ahead Market processes (e.g., bidding) as well as the multitude of processes that surround the entire market (e.g., sufficiency tests, Resource Adequacy showings and compliance, CRR allocation and auctions, and the flow through of Must-Offer Obligations into Real-Time).

A recent FERC ruling⁶ on Local Market Power Mitigation (LMPM) can easily be read within the context of EDAM.

*"Even if resources are not under a contractual or legal obligation to offer supply into a market, allowing the unmitigated exercise of market power by those resources may result in unjust and unreasonable rates..."*⁷

*"We find that this discretion could potentially undermine CAISO's independent operation of the EIM because it would allow EIM entities, which are also participants in the EIM, discretion over what constraints are applied to them..."*⁸

*"[the proposal] create[s] incentives for inefficient and uneconomic scheduling and bidding because EIM entities may have incentives to bid such that the constraint becomes binding and the resulting congestion revenue is returned to them..."*⁹

⁵ "The same principles of the Western EIM will be maintained: voluntary participation, low-entry cost, no exit fees, ..." page 3, paragraph 3 [emphasis added].

"Interchange rights holders have procured transmission and on a voluntary basis have chosen to allow the transmission to be used for transfers." Page 4, paragraph 1 [emphasis added]

"resource participation in EDAM will be voluntary, i.e. there will not be an obligation to offer specific resources into the day-ahead market" page 4, paragraph 3 [emphasis added]

"that voluntarily bids or is self-scheduled into the day-ahead market" Page 11, paragraph 1.

⁶ *Order on Tariff Revisions*. Sept 30, 2019. 168 FERC ¶ 61,213 Docket No. ER19-2347-000 Accessible here: <http://www.caiso.com/Documents/Sep30-2019-Order-TariffRevisions-Accepting-Part-Rejecting-Part-LMPME-ER19-2347.pdf>

⁷ *Id.* at paragraph 22.

⁸ *Id.* at paragraph 23.

⁹ *Id.* at paragraph 23 starting at the top of page 10

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PG&E requests that the straw proposal address the specifics of voluntary participation including the timelines and mechanisms for how and when the voluntary decision to participate will convert to a set of binding obligations.

4. Additional feedback on other key policy considerations

The CAISO's comment template requested that stakeholders provide feedback on eleven (11) key policy considerations. PG&E has chosen to provide three key messages (above) in addition to comments on the specific policy considerations outlined in the issue paper and comments template.

i) **Transmission Provision**

PG&E recognizes this as a fundamental and critical issue to the success of EDAM. As such, PG&E suggest that Transmission Provision and Resource Sufficiency be front-loaded in the discussion.

Additionally, CAISO should be open to a variety of options and learn from those that have tried this before (*e.g.*, Seams Elimination Cost Adjustment, and MISO failed proposal to allow MidAmerican to participate in its Energy Markets without turning over control of its transmission to MISO).

PG&E suggests that CAISO should minimize inefficiencies that could arise in the DAM due to pancaking or hurdle-rates.

PG&E has many other questions that we hope will be addressed in the straw proposal such as *How will the two-model approach interact in the DAM?* The two models being

- i) a physical network flow model based on Kirchoff's law, and
- ii) a contract path model where the use of which contract paths to use to move energy between BAAs is a decision in the market that is based on economic considerations.

ii) **Distribution of congestion rents**

While PG&E does not have a specific proposal for the distribution of congestion rents arising in EDAM, PG&E would recommend some metrics by which to judge competing proposals:

- Avoiding uplift costs and cost shifts between participants
- Creating proper incentives to make transmission available
- Disincentives to game or create inefficiencies *via* inappropriate withholding of transmission capacity.
- A specific timeline that includes the following milestones:
 - o Deadline for voluntary participation including asset selection/offering
 - o Allocation timeline if there are CRRs
 - o Auction timing (if there is an auction for CRRs)
 - o Timing of Resource Sufficiency test (as it depends on the deliverability of any traded RS resources)

- Nature of the deliverability requirements
- Market clearing
- Market settlements

iii) Resource sufficiency evaluation (including forward planning and procurement; trading imbalance reserves and capacity; EIM resource sufficiency evaluation)

PG&E recognizes this as a fundamental and critical issue to the success of EDAM. As such, PG&E suggest that this, and Transmission Provision, be front-loaded in the discussion. PG&E recognizes that the RS test is going to be difficult as it will need to account for trading of capacity (avoiding non-counting or double-counting) and the transmission required to make those trades deliverable.

PG&E's primary concern is that the RS test should not create undue risks and costs to Californian customers. To that end, the RS test needs to be consistent with CAISO's current RA construct and flexible enough to accommodate the unique nature of each participant's RA programs.

For example, PG&E is concerned that the sufficiency test could create a third compliance paradigm that California LSEs will have to meet (CPUC RA requirements, CAISO RA requirements, and CAISO EDAM RS requirements). Already, our bifurcated compliance paradigm for RA is already challenging and adding a third set of constraints or targets could result in additional costs and risks to California customers. For example, one could imagine the RS test having similar megawatt requirements but at a greater granularity with respect to time; a seemingly trivial change. However, that might lead to a greater number of resources being needed to meet the same megawatt requirement; *i.e.*, over procurement. Whatever RS test is used in EDAM, it will have to be consistent with the CAISO RA constructs and flexible enough to accommodate the California compliance requirements.

PG&E has several questions that we hope CAISO will address in their straw proposal, such as:

- When a BAA misses its RS test, even by a MW, does the BA get excluded from the DA Market?
- Would it be better to have financial penalties for small deficiencies and "islanding" for more severe deficiencies?
- How can we assure accurate accounting of RS resources net of trades and transmission deliverability?
- How can we prevent undue "leaning"? How do we define "undue" leaning, as some amount of leaning (in exchange for compensation) is the point of EDAM?

iv) Ancillary services

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No comments at the moment

v) Modeling of non-EDAM imports and exports

No comments at the moment

vi) External participation

No comments at the moment

vii) Accounting for greenhouse gas costs

No comments at the moment

viii) Convergence bidding

No comments at the moment

ix) Price formation

As mentioned in our first key comment, PG&E's biggest concern with the issue paper is that it is an overly ambitious schedule and scope and we urge CAISO to descope any non-critical issues to a subsequent phase.

Price Formation is a non-critical issue and should be left for a subsequent phase of EDAM, after it has successfully launched.

PG&E is not expressing support for or opposition to convex hull pricing for fast start resources. Rather, PG&E believes this highly technical issue will require a stakeholder initiative in its own right to design correctly, and any attempt to address it in EDAM phase 1 risks mistakes in the execution of price formation itself.

x) EDAM administrative fee

No comments at the moment

xi) Review of day-ahead settlement charge codes

No comments at the moment

xii) Miscellaneous (inter SC trades)

No comments at the moment

xiii) EIM Governing Body classification

There is a “chicken and egg” problem with respect to classification of the current initiative, in that whatever governance may be appropriate for the future EDAM does not currently exist and cannot be put in place until EDAM itself is approved and takes effect. PG&E believes that the format that is likely to work best in this instance is a **joint** approval process – similar to that employed for recent governance charter changes -- in which both the CAISO Board of Governors and EIM Governing Body sit together in extraordinary joint session to consider and approve the overall package for EDAM market design. PG&E recommends that CAISO defer the design of such an extraordinary classification to the recently constituted Governance Review Committee, along with the broader question of how future initiative classifications should work once EDAM has been approved.

xiv) Additional items to be added to scope:

Added to the scope: Market Power Mitigation

Descope: Price Formation. Move to second phase after EDAM has successfully launched.