

## Stakeholder Comments Template

### Day-Ahead Market Enhancements Phase 1 Initiative

This template has been created for submission of stakeholder comments on the straw proposal that was published on February 7, 2020. The proposal, February 10, 2020 Stakeholder meeting presentation, March 5, 2020 Stakeholder call presentation, and other information related to this initiative may be found on the initiative webpage at: <http://www.caiso.com/StakeholderProcesses/Day-ahead-market-enhancements>

Upon completion of this template, please submit it to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on March 26, 2019.

Submitted by	Organization	Date Submitted
<i>Bonnie Blair</i> <a href="mailto:bblair@thompsoncoburn.com">bblair@thompsoncoburn.com</a> 202.585.6905  <i>Meg McNaul</i> <a href="mailto:mmcnaul@thompsoncoburn.com">mmcnaul@thompsoncoburn.com</a> 202.585.6940	<i>The Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (the "Six Cities")</i>	<i>Mar. 26, 2020</i>

**Please provide your organization’s overall position on the DAME straw proposal:**

- Support
- Support w/ caveats
- Oppose
- Oppose w/ caveats
- No position

At this time the Six Cities take no position on the elements of the Straw Proposal, but have identified a number of concerns. As discussed below, key elements of the CAISO’s proposals on several significant issues remain unsupported. The Six Cities continue to urge the CAISO to provide stakeholders with more information regarding the potential costs and benefits of the substantial design changes the CAISO is proposing.

**Please provide written comments on each of the straw proposal topics listed below:**

**1. New day-ahead market products, including reliability energy, reliability capacity, and imbalance reserves.**

At this time, information about the anticipated costs to the CAISO Balancing Authority Area (“BAA”) of the proposed Day-Ahead Market products has not been provided. Adoption of these products will magnify the complexity of the existing markets, and the costs and benefits of these changes are uncertain. Before proceeding with implementation of the proposed products, the CAISO should provide stakeholders with an assessment of how existing costs may be expected to change, which stakeholders are likely to incur additional costs based on the new projects, and which stakeholders are expected to benefit from the CAISO’s proposals. For example, if the CAISO theorizes that adoption of reliability energy and capacity products will enable CAISO operators to reduce out of market actions, the Six Cities urge the CAISO to identify a way to measure those changes and the expected reduction in cost. The reliability products in particular add considerable complexity to the existing Day-Ahead Market, and the CAISO should demonstrate that these products will add value.

Additionally, stakeholders have raised serious concerns that the introduction of these products may have a detrimental impact on pricing transparency in the CAISO markets and result in a need to modify existing Resource Adequacy contracts to align with the requirements for these products. Before adopting the new market products, the CAISO should give serious consideration to these concerns.

Finally, the CAISO’s efforts in this initiative have emphasized the objectives and preferences of EIM entities given the Extended Day-Ahead Market (“EDAM”) initiative. The Six Cities continue to urge the CAISO to consider the impacts and costs to its own BAA and to adopt changes applicable to the CAISO BAA that are needed to facilitate EDAM only if there is a sufficient showing of independent benefits to the CAISO BAA.

**2. Settlement and cost allocations.**

The Six Cities have no comments on this topic at this time.

**3. Bidding rules and offer obligations.**

With respect to the elements of the CAISO’s proposals related to bidding rules and offer obligations, it is critical that the CAISO consider potential impacts to existing Resource Adequacy contracts if new requirements and obligations are imposed. The Cities’ concerns in this regard are more fully addressed below under topic #9.

**4. Scheduling rules for variable energy resources.**

The Six Cities have no comments on this topic at this time.

## **5. Deliverability approach for reliability capacity and imbalance reserves.**

The Straw Proposal documents the need to synchronize the CAISO's processes for dispatching flexible resources with its congestion management system, as is being discussed in the CAISO's Flexible Ramping Product Refinements initiative. The Six Cities also note the concerns that the CAISO has identified regarding whether its preferred approach of using deployment scenarios to settle reliability energy and imbalance reserves at the nodal level can be accomplished within the applicable timelines. If nodal settlement is not achievable and the CAISO reverts to zonal settlement for these products, what are the anticipated costs and impacts to CAISO load-serving entities?

## **6. Approach for congestion revenue rights.**

The CAISO needs to review with stakeholders in more detail how its current proposals are likely to impact Congestion Revenue Rights ("CRRs"), including the reforms that the CAISO recently adopted to reduce CRR uplift. To date, there has not been sufficient discussion of how the CAISO's proposals may impact CRR availability and outcome, nor have there been sufficient assurances to load-serving entities in the CAISO BAA that they will continue to have the ability to manage congestion costs effectively through CRRs. This is a critical issue that must be sufficiently addressed as a condition for the DAME initiative to move forward.

## **7. Approach for local market power mitigation.**

As discussed elsewhere in these comments, the Six Cities take no position on the CAISO's proposals in this initiative at this time and have serious concerns regarding the absence of analysis regarding the expected impacts of these proposals on CAISO load-serving entities. Despite their general misgivings, however, in the event the Day-Ahead reliability products discussed in the Straw Proposal are developed, the Six Cities agree with application of local market power mitigation to these products.

## **8. Regression approach to determine the imbalance reserve requirement.**

The Six Cities have no comments on this topic at this time.

## **9. Additional comments:**

The Six Cities remain deeply concerned that the CAISO has not conducted a rigorous analysis of the costs and risks of implementing the proposed DAME as compared with the anticipated benefits. As a number of stakeholders with different business models and roles in the CAISO's markets have emphasized, the market design modifications recommended in the DAME proposal are profound, and they will have sweeping impacts. In view of the fact that most of California's energy requirements are met through transactions in the CAISO's Day-Ahead Market, it is critical that any proposals for significant modifications to the current Day-Ahead Market design appear likely to provide benefits that exceed the costs and complexities of implementation and

avoid creating unintended consequences or opportunities for extracting payments that exceed the value of services actually provided. The CAISO's presentations to date have not convinced the Cities that the design in the DAME Straw Proposal would satisfy the test set forth in the preceding sentence.

In their comments submitted on August 27, 2019, the Six Cities identified conceptual concerns with both of the DAME options that were being considered at that time. Thus far, there has been only limited discussion of the concerns the Cities identified, as noted in the comments included above on several specific design elements.

The most fundamental issue raised by the DAME Straw Proposal is whether the proposed payments for capacity in the Day-Ahead Market will provide value to customers in the CAISO's Balancing Authority Area commensurate with the costs to those customers of developing and implementing such a significantly different Day-Ahead Market design. Load-serving entities in California, including the Six Cities, procure Resource Adequacy capacity at substantial cost from diverse types of capacity resources under contracts with varying lengths. Under the current market design, most capacity under Resource Adequacy contracts is required to be available to serve load in the CAISO BAA without additional capacity payments, and modifications to the Resource Adequacy program currently under consideration generally would expand requirements for forward capacity procurement and availability obligations. It is not clear that the theoretical benefits of optimizing unit commitment under the proposed Day-Ahead design will outweigh the additional payments for capacity that are proposed.

As discussed above, the analysis of impacts on CRR values and revenues has been wholly inadequate. In addition, the CAISO to date has provided no meaningful analysis of how virtual bids will interact with physical bids in the proposed DAME design. Could a virtual bid offset a bid for physical capacity such that the capacity would be paid in the Day-Ahead Market but not be available in the Real-Time Market? Could virtual bids distort the outcome of the optimization such that the Day-Ahead Market solution would not include sufficient physical supply to meet the forecast demand? Could virtual bids exploit the co-optimization of energy and capacity to extract profits without providing commensurate benefits, particularly in view of the fact that the proposed DAME would create additional differences between the Day-Ahead and Real-Time market structures? Would the co-optimization of energy and reliability capacity reduce or eliminate the price convergence effects of virtual bidding, and if so, would continuation of virtual bidding provide benefits commensurate with the associated costs and risks?

The Six Cities understand that a principal objective for the DAME proposal is to reduce out-of-market interventions such as Exceptional Dispatch and load biasing. Design modifications under consideration in the Flexible Ramping Product Refinements initiative and in the Resource Adequacy Enhancements initiative may reduce the need for out-of-market interventions. In addition, the CAISO should consider whether more limited modifications to the current Day-Ahead Market design, such as modification of the RUC process to consider gas availability conditions, could achieve similar reductions in the need for out-of-market interventions at less cost and lower risk.

It is unclear to the Six Cities whether it would be possible to simulate the impacts of the DAME proposal in a way that would produce useful information. The Cities request that the CAISO evaluate opportunities for meaningful simulations and inform market participants of the outcome of such evaluations. If meaningful simulations are not possible, then the CAISO should conduct additional workshops to address, at a minimum, concerns relating to impacts on CRRs, interactions with virtual bidding, and market power mitigation for the proposed new Day-Ahead capacity products. Without such additional analysis, the proposed DAME design requires a leap of faith that is too wide.