SCE Comments – Day Ahead Market Enhancements

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Southern California Edison (SCE) provides these comments on the California Independent System Operator's (CAISO) January 24, 2022 workshop on Day Ahead Market Enhancements (DAME).[1]

SCE has serious concerns about CAISO's overall Proposal. SCE has provided its detailed comments describing the concerns with the CAISO Proposal and is generally opposed to the implementation of the CAISO Proposal[2]. In addition to prior comments, SCE submits the following comments on specific topics. In summary, SCE encourages the CAISO to leverage the existing RUC process to address net load uncertainty, including potentially introducing new products within RUC if necessary. The CAISO should not introduce the proposed new capacity products in IFM, and the RA Must Offer Obligation (MOO) should remain in effect. There is no evidence that the current processes are ineffective and both of these changes introduce more uncertainty at a time when extreme weather events and summer reliability is a concern.

SCE cannot support elimination of Resource Adequacy Must Offer Obligation (RA MOO)

SCE supports the CAISO's needs to procure the appropriate resources to meet its Real Time (RT) needs. However, SCE disagrees with the CAISO's proposed approach toward securing such resources. SCE notes that several stakeholders, including the CPUC and PG&E, have concerns with the CAISO's proposal.

In prior comments, SCE has already detailed the problems with the CAISO's proposed treatment of the existing RA fleet as well as provided alternative solutions to dealing with these resources[3]. The CAISO should consider SCE's proposal as viable. Any resource-leaning concerns can be addressed through the use of Balancing Authority (BA)-specific constraints. If the CAISO does not find such proposals feasible then it should detail the reasons why it believes so. The CAISO should also detail why it believes its solution is superior, with details similar to how stakeholders have justified their own proposals.

The proposed new products appear unnecessary and the overall proposal causes a set of issues that must be fully addressed

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[1] https://stakeholdercenter.caiso.com/StakeholderInitiatives/Day-ahead-market-enhancements

[2] http://www.caiso.com/InitiativeDocuments/SCEComments-Day-AheadMarketEnhancementsRevisedStrawProposal.pdf

[3] Pages 3-7. http://www.caiso.com/InitiativeDocuments/SCEComments-Day-AheadMarketEnhancementsRevisedStrawProposal.pdf

While the CAISO explained the need for addressing net load imbalances between day-ahead and real-time markets, the CAISO has not fully explained why the existing market structure cannot address those imbalances. Residual Unit Commitment (RUC) is designed to bring necessary physical capacity to bridge the gap between the Integrated Forward Market (IFM) and the real-time market (RTM). As such, a proposal for new capacity products in IFM is unnecessary. SCE recommends that the CAISO fully leverage the RUC to address the net load imbalance issue as perceived by the CAISO.

Additionally, it's not clear how the IRP would work in conjunction with the Priority Scheduling rights and ensure that the resources procured are used to serve customers within the CAISO Balancing Authority and not exported outside of the CAISO.

As described in SCE prior comments, a proposal of new imbalance reserve products (IRP) in IFM could potentially have detrimental effects in the CAISO market, including:

- Issues with interaction of multiple capacity products in the CAISO energy market. The proposed imbalance reserve products, proposed reliability capacity products, existing RUC awards, and the existing flexible ramping products all seem to address the same uncertainty; and yet, their relationship will become much less clear with the new proposed products and will certainly create additional complexity in market design and market operations. As mentioned above, the proposed new capacity products in IFM seem unnecessary. The CAISO has not demonstrated clear benefits of introducing the new capacity products in IFM to the ratepayers, in light of the issues the new products create.
- Wealth transfer between market participants. Under the CAISO Proposal, California load will pay for both the energy revenue and the capacity revenue for all generators that are committed and dispatched in the IFM. It is possible that a generator will consider a total cost when submitting its capacity and energy bids. This total cost can represent the marginal energy cost today. However, under the CAISO Proposal, since a generator will be compensated through two revenue streams (a capacity revenue and an energy revenue) in IFM, it is unclear that whether and how such design will change energy bidding for generators. When such design can lead to lower energy bids for California resources, it can lead to an outcome that California resources would support a broader region (in EIM) in producing energy at a lower energy cost even though the total revenue won't change. Such outcome essentially would represent a wealth transfer between regions and therefore should be avoided.

Contrary to CAISO's assertions, the Proposal will not reduce out-of-market actions by CAISO Operators to fix the physical supply gap between day ahead and real time. First, given the complicated relationship between multiple products, CAISO Operators will likely need to continue issuing out-of-market instructions to ensure feasible dispatch for the resource. For example, given multiple awards, including energy awards, ancillary service awards, flexible ramping awards, and capacity awards under the proposed products, an Operator would need to consider all those market awards for the resource and likely issue multiple instructions to ensure feasible dispatch for all products. Second, with the proposed removal of RA MOO, the CAISO Operators will likely issue more exceptional dispatches during tight system conditions. Therefore, the perception that the Proposal will reduce out-of-market dispatch, which seems a basic argument for the CAISO to propose the new products, appears unfounded.

As discussed during Jan 24 workshop, the proposed new products are not necessary given the flexible RA and must offer obligation requirements already in place. SCE strongly urges the CAISO to delay this implementation until other proposals can be vetted.