

Stakeholder Comments Template Day-Ahead Market Enhancements Initiative

This template has been created for submission of comments on proposed market design options discussed with stakeholders during the August 13, 2019 Day-Ahead Market Enhancements working group meeting. Information related to this initiative is available on the initiative webpage at:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/Day-AheadMarketEnhancements.aspx>.

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on August 27, 2019.

Submitted by	Organization	Date Submitted
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CPUC staff appreciates CAISO holding an additional workshop to discuss the issues surrounding the Day-Ahead Market Enhancements proposals. At present, staff has significant concerns with key aspects of the proposals, and provides comments on the following topics:

1. CAISO should prioritize addressing the issues that have arisen with the real-time flexible ramping product before introducing this product into the day-ahead market.
2. Staff continues to observe that Option 2 will introduce serious pricing issues into the day-ahead market and seeks additional information from CAISO on how it plans to resolve these issues.
3. Given the complications that may arise in designing a new flexible ramping product for the day-ahead market, staff urges CAISO to move forward cautiously with Option 1, with sufficient time to fully vet and develop the design.

CAISO should prioritize addressing the issues with the real-time flexible ramping product before proposing to design a day-ahead flexible ramping product.

During the workshop, parties raised questions about the need for a new flexible ramping product. CAISO explained that the current real-time flexible ramping product does not always provide the flexible capacity needed to balance real-time load. However, staff understands that real-time flex ramp prices tend to be at or near zero and that this is due to deliverability issues with procured flex ramp.

CPUC staff recommends addressing this deliverability issue first in the current real-time flexible ramping product before designing a day-ahead product. Once the real-time flex ramp product properly values flexible capacity, CAISO and parties can more clearly

evaluate the precise needs and requirements for the day-ahead product. Additionally, fixing the real-time deliverability issues should provide a blueprint for handling similar issues with the day-ahead product and helps to ensure that load does not pay for multiple non-deliverable products.

CPUC staff does not support Option 2.

CPUC staff reiterates its concern with CAISO's Option 2 'financial + forecast' design for the day-ahead market enhancements. Option 2 would introduce complex changes to day-ahead market prices. In particular, these changes would complicate participation for energy storage, dispatchable load, and exports, among others. The changes may also introduce new gaming opportunities in the CRR markets. Additionally, the price uncertainty contained in this design introduces complications to forward contracting as a hedge against high prices. Full implementation of Option 2 may also necessitate significant changes to existing RA contracts. CPUC staff views Option 2 as a potentially very high cost option, and is concerned that CAISO has not sufficiently quantified the potential costs and complications of this option.

Staff understands that this initiative is intended to accommodate the extended day-ahead market (EDAM), and is being driven by that goal. Unfortunately, the design does not place appropriate value on pricing fundamentals. The potential efficiencies that can arise from an expanded market could be lost if that market does not function well and does not provide clear price signals.

Option 1 needs significant development, but may be feasible.

As proposed by CAISO, Option 1 involves designing a flexible ramping product for the day-ahead market. In and of itself, this is a significant undertaking, and staff is concerned that CAISO may be underestimating the complications that may arise in designing this new product. In addition, CAISO faced significant challenges in implementing the real-time flexible ramping product and only recently fixed some identified issues. Given the importance of proper design and implementation to ensure efficient operation of the day-ahead market, CPUC staff urges CAISO to move forward cautiously, with sufficient time to fully vet and develop the design.

CPUC staff appreciates that CAISO has provided numerous opportunities for stakeholder discussion and input regarding the direction of this initiative, and looks forward to further discussion. The current calendar suggests that CAISO will issue a draft final proposal by February of 2020, which seems ambitious. Careful design and implementation of a new day-ahead flexible ramping product are essential to preserve or increase the efficiency of the market.