



Day Ahead Market Enhancements June 19th Working Group Meeting

Public Generating Pool Comments

July 3, 2018

Public Generating Pool (PGP) appreciates the opportunity to comment on the California ISO's Day Ahead Market Enhancements Working Group meeting held on June 19, 2018. PGP represents ten consumer-owned utilities in Oregon and Washington that own almost 6,000 MW of generation, over 4,500 MW of which is hydro and 95% of which is carbon-free. Three of the PGP members operate their own Balancing Authority Area (BAA), while the remaining members have service territories within the Bonneville Power Administration's (BPA) BAA.

PGP believes some of the updates CAISO has made to the Day Ahead Market Enhancements (DAME) Revised Straw Proposal are improvements over the previous version, such as allowing resources to specify a bid price for the Day-Ahead Flexible Ramping Product (DA FRP) and moving the proposal to allow RA resources to submit non-zero bids to the Extending the Day Ahead Market to EIM Entities discussions. However, there are a few key design areas that PGP still has concerns with, namely the inability for resources to specify a DA FRP quantity and CAISO's proposal to use a demand curve to determine DA FRP procurement.

DA FRP should be a separate product with the ability to specify quantity and price

PGP continues to believe that the DA FRP should be developed as a separate product. As such, the bidder would be allowed to specify the quantity and the price of the resource being offered. This is consistent with other CAISO products. Under CAISO's current proposal, if a resource indicates its willingness to offer DA FRP via selecting the DA FRP flag, the presumption is that the resource is willing to make its full bid range available for DA FRP. The amount of the bid award then is based solely on the resource's ramping capability. This precludes a resource from offering a portion of its bid range – up to its ramping capability – as a DA FRP. ***PGP requests that CAISO allow resources the ability to specify the quantity and the price of the DA FRP they are able to offer.***

PGP requests additional clarity about use of a demand curve in procuring DA FRP

It is unclear from CAISO's June 19th workshop how the demand curve will be structured, when it will be applied and how steep it will be. PGP is concerned that based on the information that was shared, CAISO will be under-procuring DA FRP and not sending proper price signals to encourage additional offers of FRP. ***PGP requests additional clarity regarding CAISO's proposal to procure DA FRP using a demand curve.***

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Need to procure adequate DA FRP

CAISO has experienced significant shortages (5,000 – 7,000 MW) of RA capacity during different days in June and September 2017. In its 2018 Summer Loads and Resource Assessment¹, CAISO found a 50% probability that it will need to declare a Stage 2 Emergency for one hour this summer. Current projections for 2018 show the CAISO at risk of reduced operating reserves levels, which could potentially result in a Stage 1 Emergency. The 2018 PLEXOS stochastic simulation results show both system capacity and ancillary service shortages. With CAISO's growing operational challenges of increasing renewables penetration and limited progress to date in RA program changes, it is important that CAISO procure adequate DA FRP to ensure sufficient resources to handle real-time uncertainty and not push that risk further downstream into real-time.

Need to assure proper price formation

Proper price formation through robust shortage and scarcity pricing mechanisms is another critical market design feature of the DA FRP. In its Revised Straw Proposal, CAISO has stated that it believes the potential for scarcity in the day-ahead market is extremely low because the flexible RA requirements will ensure sufficient resources have been procured by load-serving entities to meet their allocable share of the highest potential imbalance reserve (now DA FRP) requirement for each month. Regardless of whether or not this is the case, well-designed shortage pricing mechanisms help ensure that tight supply conditions are reflected in market clearing prices, create efficient price signals, and encourage voluntary resource participation in the CAISO's day-ahead market. ***PGP recommends CAISO consider shortage pricing mechanisms be included in the design for procurement of DA FRP, such as the tiered based penalty price approach suggested in the Revised Straw Proposal.***

PGP requests more information about the use of DA FRP for Resource Sufficiency

PGP believes adequate procurement of DA FRP and proper requirements and incentives to ensure DA FRP awards are backed by physical supply that can perform when called upon, provides assurances that CAISO is resource sufficient, and not leaning on neighboring EIM Entity BAs. CAISO stated that the DA FRP will help CAISO satisfy its EIM resource sufficiency (RS) test requirements. Analysis presented at the April 30, 2018 EIM Offer Rules Workshop suggested that, at times, CAISO is incorrectly passing the RS test. In times of tight supply conditions, it appears that CAISO is importing a significant amount of transfers from the EIM. This brings into question whether CAISO is "leaning" on the EIM. Assurance of no leaning is foundational for the EIM and becomes even more critical if the Day-Ahead Market is extended

¹ <http://www.caiso.com/Documents/2018SummerLoadsandResourcesAssessment.pdf>

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to EIM Entities. ***PGP requests clarity regarding how CAISO proposes to use the DA FRP to satisfy its EIM RS test requirements should it choose to not procure the full amount of DA FRP.***

Imports should tag their IFM schedule

PGP continues to recommend CAISO require imports to tag their IFM schedule instead of allowing untagged IFM import schedules to be a source of uncertainty that requires procurement of additional DA FRP.

PGP reiterates its request for CAISO to provide additional information regarding the magnitude and frequency of imports that do not tag their IFM schedules and information on how CAISO will calculate how much upward imbalance reserves will be procured to account for untagged imports.

PGP requests an extension of the DAME Stakeholder Process

The DAME initiative proposes notable changes to CAISO's market design with wide spread impacts to stakeholders with the current timeline concluding the process in November 2018. PGP believes it important that stakeholders be given sufficient time and the necessary detail to understand and digest the full scope of the proposed changes and implications they pose. ***PGP requests CAISO extend this stakeholder initiative process and build in additional cycles for proposal revisions, stakeholder meetings and stakeholder comments to the schedule.***

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