

**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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Please provide comments on the preferred market structures that were discussed during the August 13, 2019 working group meeting. Include the pros and cons for each option.

- At this time, does your organization support moving forward with **Option 1: Financial**, **Option 2: Financial + Forecast**, or **undecided**. Provide supportive comments (in favor of, or in opposition to) below.

Please double click on check box below to select your position:

<p><u>Option 1:</u></p> <p><input type="checkbox"/> Support</p> <p><input type="checkbox"/> Support with caveats</p> <p><input checked="" type="checkbox"/> Oppose</p> <p><input type="checkbox"/> Undecided</p>	<p><u>Option 2:</u></p> <p><input type="checkbox"/> Support</p> <p><input checked="" type="checkbox"/> Support with caveats</p> <p><input type="checkbox"/> Oppose</p> <p><input type="checkbox"/> Undecided</p>
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Option 1: Financial

- Co-optimizes bid-in demand, ancillary services and imbalance reserves
- Imbalance reserves cover historical uncertainty between IFM cleared net load and FMM net load
- Exceptional dispatch if IFM clears inconsistent with operational needs

Please provide comments to explain your position on option #1:

Option 1 improves on the status quo by allowing for the provision of imbalance reserves but does not sufficiently address the concerns raised by CAISO staff about the amount of out of market actions that have been required to maintain reliability.

Maintaining a “financial” market in the Day Ahead does not allow for co-optimized procurement of sufficient total capacity to ensure reliable service without exceptional dispatch or other out-of-market actions. Instead, maintaining a separate run of the residual unit commitment process to procure required additional capacity will continue some of the market inefficiencies the CAISO is attempting to address with this initiative.

Additionally, this approach also does not adequately differentiate between services or compensate resources for those services. Treating all bids the same - whether they be from firm physical resources, variable resources, speculative imports or virtual supply – does not properly value the services that are being provided. Correcting this issue will be crucial in encouraging participation in a voluntary market, particularly for flexible, firm resources, if the EDAM initiative moves forward.

Pros of option #1:

- Provides for the co-optimized procurement of imbalance reserves.

Cons of option #1:

- Treating all bids the same despite their relative attributes does not properly compensate resources for the services they are providing.
- Continues incentive for virtual supply to displace physical supply, increasing the need for out of market actions and reducing system reliability.
- Does little to incent participation in a voluntary market for firm, flexible resources.
- Has the potential to undermine reliability in other BAAs if Day Ahead Market is extended to the EIM and the need for out of market actions is not addressed.

Option 2: Financial + Forecast

- Co-optimizes bid-in demand, ISO reliability capacity, ancillary services and imbalance reserves
- Imbalance reserves cover historical uncertainty between ISO’s day-ahead net load forecast and FMM net load
- Reliability capacity covers differences between ISO net load and cleared net load
- Exceptional dispatch if IFM/RUC clears inconsistent with operational needs

Please provide comments to explain your position on option #2:

Option 2 is significantly superior to Option 1 and will better address the concerns about out of market actions raised by CAISO staff. In addition to allowing for the co-optimized provision of imbalance reserves, Option 2 includes other important changes that start to address some of the significant short comings in Option 1, although additional work is still needed.

By procuring enough total physical capacity to meet the CAISO load forecast, this option is more likely to reduce the need for out of market actions to maintain reliability. Option 2 also starts to distinguish between the services provided by different resources and how those resources are compensated.

However, while acknowledging that there are real differences between virtual bids and real physical bids is a good first step, Option 1 continues to treat firm energy- which can provide energy, capacity, and flexibility – the same as variable resources and speculative imports. The CAISO should continue to work with stakeholders to determine what other changes should be pursued to further increase reliability and reduce the likelihood of out of market actions.

Some of the questions to explore in future discussions include:

- Should variable generation be treated that same as firm energy in the Day Ahead Market? What about speculative imports?
- How would this solution work in an EDAM context?
- How much capacity should be acquired to assure a high level of reliability?

Pros of option #2:

- Provides for the co-optimized procurement of imbalance reserves.
- Provides for the co-optimized procurement of the total physical capacity needed to meet load reliably
- Acknowledges that virtual bids do not provide capacity and procures additional capacity to maintain reliability.
- Appropriately differentiates between physical bids and virtual bids when compensating for capacity.
- Reduces the incentive for virtual supply to displace physical supply, since physical supply is being compensated for energy + capacity.
- Better incents participation in a voluntary market for firm, flexible resources.

Cons of option #2:

- Does not account for reliable output of variable resources (unlikely to be dispatched at 100%).
 - o Could create a need for additional out of market actions.
 - o May not appropriately compensate resources for the capacity value they are providing.
- Imbalance reserves may not be fully compensated for the capacity they are providing.

Please offer any other feedback your organization would like to provide on presentation materials and discussion for August 13, 2019 Day-Ahead Market Enhancements stakeholder working group meeting.

Comments:

The Public Power Council (PPC) appreciates the opportunity to provide comments on the Day Ahead Enhancement alternatives developed by CAISO staff. Reducing the out of market actions that have been required to maintain reliable service is important to creating a sustainable and expandable day ahead market.

PPC members are interested in this initiative from several different perspectives: as purchasers of preference power and transmission services from BPA (who is evaluating future participation in the EIM), as load serving entities in the current and/or future EIM footprint, and as possible EIM participants themselves. With the potential of EDAM moving forward, whether the day ahead market rules properly compensate resources for the service they provide will be an important consideration, particularly for reliable, flexible hydro generation, in determining whether to participate in an extended day ahead market.

Another important consideration will be whether market rules ensure that the market can provide for reliable service with minimal out of market interventions. Customers in BPA's Balancing Area currently receive a very high level of service and PPC would look to ensure that DAM rules facilitate a similar or higher level of service before supporting BPA joining a potential EDAM.

PPC prefers "Option 2: Financial and Forecast" and hopes to continue to work with the CAISO and other stakeholders to further develop that alternative. Additional work with stakeholders would allow for the opportunity to refine the proposal so that it adequately addresses reliability concerns and reduces the need for out of market actions. This is particularly important in light of the potential of EDAM. CAISO should consider how to best align the DAME and EDAM initiatives, including possibly combining them. CAISO should also consider how best to ensure that a broad group of stakeholders across the west are informed and engaged as it improves and expands its Day Ahead Market. An inclusive and comprehensive Day Ahead initiative process will best set up the potential for a successful expansion of the Day Ahead Market.

PPC thanks CAISO staff for their work on this issue and encourages them to continue to pursue the improvements to the day ahead market