

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
Emeka Anyanwu Energy Innovation & Resources Officer (206) 684-3718	Seattle City Light	August 27, 2019

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.

Seattle appreciates the opportunity to provide comments on the August 13, 2019 working group meeting on proposed market design options for CAISO's day-ahead market. Seattle found the workshop to be a valuable opportunity to better understand CAISO's perspective, as well as other stakeholder perspectives, on the different proposed options under discussion.

Seattle also greatly appreciates CAISO's efforts to track and explain the interactions between DAME and its RA enhancements initiative and anticipated EDAM initiative. Seattle wholeheartedly agrees that day-ahead market design options cannot be considered independent of these other initiatives which have clear interactions. In particular, Seattle believes the appropriate design/enhancements to the day-ahead market are very dependent on whether the CAISO day-ahead market is expanded to EIM entities. For example, a day-ahead market design that does not adequately compensate and differentiate between firm physical resources (hydro, thermal) and non-firm energy and virtual supply (such as Option 1) will likely be unworkable in a voluntary, regional market such as EDAM.

Given the interrelated nature of DAME and EDAM, Seattle recommends that CAISO pause further day-ahead market re-design efforts until the EDAM stakeholder initiative commences. In the interim, Seattle encourages CAISO to continue to develop and implement a day-ahead imbalance reserve product as a first step to addressing uncertainty between the day-ahead and real-time markets and as means to reduce

out-of-market actions. CAISO should focus on a design that ensures deliverability. In addition, Seattle encourages CAISO to consider improvements to the deliverability of real-time flexible ramping product.

1. 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:

Seattle does not support Option 1. While Option 1 is an improvement on the status quo as it would co-optimize the procurement of energy and capacity products, it does not differentiate between firm physical resources and VERS, speculative imports and virtual supply. Failure to recognize and compensate resources that are backed by capacity sends the wrong price signal to these resources and could lead to virtual supply displacing physical supply and exacerbate the need for out-of-market actions. Seattle supports a day-ahead market design that would minimize out-of-market actions as this will result in the lowest production cost to reliably meet demand. Seattle does not support Option 1 because we do not believe it would achieve this goal.

Pros of option #1:

- Co-optimizes procurement of imbalances reserves in IFM
- Eliminates need for sequential RUC process
- Recognizes need for imbalance reserves

Cons of option #1:

- Does not differentiate between firm physical resources and non-firm resources/virtual supply
- Would likely increase out-of-market actions which undermines reliability and would not be incompatible with and run counter to the benefits of EDAM.

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 includes many features that Seattle supports as a framework for a future day-ahead market design. Where it differentiates itself from Option 1 is the addition of the reliability capacity product procured relative to CAISO's forecast which would ensure there is enough capacity to provide a mechanism to reduce the need for out-of-market actions to maintain reliability, could provide capacity backed, firm, and flexible resources to support uncertainty in the day-ahead space, and also could be seen as a backstop to instances when virtual supply and physical supply convergence does not adequately provided for true physical resources to meet demand. Seattle believes Option 2 has the potential to a workable market design, but as stated above, we believe further discussions and refinements to the day-ahead market design are highly dependent on the design of EDAM and further discussions should be tabled until EDAM commences.

Pros of option #2:

- Co-optimizes procurement of imbalances reserves in IFM
- Eliminates need for sequential RUC process
- Recognizes need for imbalance reserves
- Includes reliability capacity product procured relative to CAISO forecast. This physical capacity constraint would eliminate the opportunity for virtual supply to undo physical capacity commitment.

Cons of option #2:

- Does not differentiate between different physical resources for purposes of evaluating capacity needs
- Resources that provide imbalance reserves to back-stop VERS do not receive a capacity payment
- Different LMP for physical and virtual supply could have unintended price formation consequences

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:

Seattle recommends that CAISO continue to pursue the development and implementation of a day-ahead imbalance reserve product and pause further discussions on day-ahead market design enhancements until EDAM commences. CAISO has demonstrated a need for a day-ahead imbalance reserve product to meet uncertainty that materializes between the day-ahead and real-time markets and Seattle believes the development of a fully deliverable day-ahead imbalance reserve product, in tandem with improving the deliverability of the real-time flexible ramping product would be a good start to addressing the reliability concerns that exists in CAISO's markets today.