California ISO

Stakeholder Comments Template

Day-Ahead Market Enhancements (DAME) Initiative

This template has been created for submission of stakeholder comments on the revised straw proposal that was published on June 8, 2020. Materials related to this initiative can be found on the ISO website at: http://www.caiso.com/StakeholderProcesses/Day-ahead-market-enhancements.

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on July 6, 2020.

Submitted by	Organization	Date Submitted
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Please provide your organization’s overall position on the DAME revised straw proposal:

☐ Support
☐ Support w/ caveats
☐ Oppose
☒ Oppose w/ caveats
☐ No position

Please provide written comments on each of the revised straw proposal topics listed below:

1. **Updated market formulation:**

   Six Cities’ Comments: At a high level, the updated market formulation (as described in the June 8, 2020 Revised Straw Proposal) appears to be an improvement as compared with the original Straw Proposal in this initiative dated February 7, 2020. The Revised Straw Proposal generally seems more streamlined, and it eliminates some of the complexities and potentially problematic interactions that would have existed under the initial formulation (*e.g.*, impacts on Congestion Revenue Rights and pricing differentials between Energy and Reliability Energy). Nevertheless, as discussed in the Additional Comments section below, the Six Cities remain concerned that the benefits from implementing the proposed Day-Ahead Market Enhancements will not be sufficient to justify the costs or the risks of unintended consequences associated with such a dramatic revision of the CAISO's existing Day-Ahead Market design.

2. **Accounting for energy offer cost in upward capacity procurement:**

   Six Cities' Comments: The Six Cities agree that if a new product for upward capacity is established, there must be a method for considering anticipated energy costs in determining what capacity resources to procure. At this time, however, the Six Cities take no position with respect to the "real-time energy offer cap" approach recommended in the Revised Straw Proposal.

3. **Variable energy resources:**

   Six Cities' Comments: In the context of the reformulated market design proposal, the proposed treatment of Variable Energy Resources appears reasonable.

4. **Market power mitigation for reliability capacity and imbalance reserves:**

   Six Cities' Comments: The Six Cities agree that if new products for Reliability Capacity and Imbalance Reserves are established, there must be a methodology to identify and mitigate potential market power with respect to those products. At this time, however, the Six Cities take no position with respect to the appropriateness of the market power mitigation approach recommended in the Revised Straw Proposal.

5. **Please include additional comments including considerations for other possible solutions or concerns to any of the above topics:**

   Six Cities' Comments: The Six Cities remain deeply concerned that the CAISO has provided no information about the anticipated costs to the CAISO Balancing Authority Area ("BAA") of the proposed new Day-Ahead Market products. Even under the reformulated design proposal, adoption of these new capacity products will magnify the complexity of the existing markets. The CAISO describes the benefits of establishing these new products in purely theoretical terms and has not provided any estimate of the relative costs and benefits of these changes. Before proceeding with implementation of the proposed products, the CAISO should provide stakeholders with an assessment of how existing costs may be expected to change, which stakeholders are likely to incur additional costs based on the new products, and which stakeholders are expected to benefit from the CAISO's proposals. For example, the CAISO theorizes that adoption of the new capacity products will enable CAISO operators to reduce out of market actions, but the

CAISO has not identified any way to measure those changes or the expected impact on costs. In view of the fact that most of California's energy requirements are met through transactions in the CAISO's Day-Ahead Market, it is critical that any proposals for significant modifications to the current Day-Ahead Market design appear likely to provide benefits that exceed the costs and complexities of implementation and avoid creating unintended consequences or opportunities for extracting payments that exceed the value of services actually provided. The CAISO's presentations to date have not convinced the Cities that the design in the Revised Straw Proposal would satisfy the test set forth in the preceding sentence.

The Revised Straw Proposal still fails to address the most fundamental question: whether the proposed payments for capacity in the Day-Ahead Market will provide value to customers in the CAISO's Balancing Authority Area commensurate with the costs to those customers of developing and implementing such a significantly different Day-Ahead Market design. Load-serving entities in California, including the Six Cities, procure Resource Adequacy capacity at substantial cost from diverse types of capacity resources under contracts with varying lengths. Under the current market design, most capacity under Resource Adequacy contracts is required to be available to serve load in the CAISO BAA without additional capacity payments, and modifications to the Resource Adequacy program currently under consideration generally would expand requirements for forward capacity procurement and availability obligations. It is not clear that the theoretical benefits of optimizing unit commitment under the proposed Day-Ahead design will outweigh the additional payments for capacity that are proposed.

It also continues to remain unclear how virtual bids will interact with physical bids under the Revised Straw Proposal. Could a virtual bid offset a bid for physical capacity such that the capacity would be paid in the Day-Ahead Market but not be available in the Real-Time Market? Could virtual bids distort the outcome of the optimization such that the Day-Ahead Market solution would not include sufficient physical supply to meet the forecast demand? Could virtual bids exploit the co-optimization of energy and capacity to extract profits without providing commensurate benefits? Would the co-optimization of energy and reliability capacity reduce or eliminate the price convergence effects of virtual bidding, and if so, would continuation of virtual bidding provide benefits commensurate with the associated costs and risks?

The Six Cities understand that a principal objective for the Day-Ahead Market revisions is to reduce out-of-market interventions such as Exceptional Dispatch and load biasing. Design modifications under consideration in the Flexible Ramping Product Refinements initiative and in the Resource Adequacy Enhancements initiative may reduce the need for out-of-market interventions. In addition, the CAISO should consider whether more limited modifications to the current Day-Ahead Market design, such as modification of the RUC process to consider gas availability conditions, could achieve similar reductions in the need for out-of-market interventions at less cost and lower risk.