

May 2, 2018

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON,
PASADENA, AND RIVERSIDE, CALIFORNIA ON THE DAY-AHEAD MARKET
ENHANCEMENTS REVISED STRAW PROPOSAL**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their comments on the April 11, 2018 Day-Ahead Market Enhancements Revised Straw Proposal (the "Revised Straw Proposal"):

The Six Cities continue to support the overall goal of the Day-Ahead Market Enhancements of procuring resources in the Day-Ahead Market that will be better positioned to satisfy demand in the Real-Time Market reliably and efficiently. *See* Revised Straw Proposal at 5. The Six Cities also continue to support in concept the ISO's proposals to provide for 15-minute scheduling in the Day-Ahead Market, to combine the Integrated Forward Market ("IFM") and Residual Unit Commitment ("RUC") processes, and to procure in the Day-Ahead Market imbalance reserves that will have an obligation to submit economic bids for the Real-Time Market. The Six Cities also continue to support the proposed principles for allocating the costs for imbalance reserves to both load and resources based on contribution to the need for imbalance reserves as described at pages 27-29 of the Revised Straw Proposal.

However, the Six Cities have a number of unresolved concerns relating to the imbalance reserve product:

(1) The purposes for imbalance reserves and Flexible Ramping Product are indistinguishable, and there is no apparent reason to procure and pay separately for both types of capacity. Indeed, under the ISO's Revised Straw Proposal, a resource that is procured to meet Flexible Resource Adequacy ("Flexible RA") requirements potentially could receive three separate payments for making the same capacity available to the ISO's markets - - payment for the provision of Flexible RA, a second payment for provision of imbalance reserves, and a third payment for provision of Flexible Ramping Product. Although the prices for Flexible RA capacity may adjust to take into consideration the potential revenues associated with provision of imbalance reserves and Flexible Ramping Product, the potential for double payments for the same capacity procured for the same purpose would remain. Capacity that is procured in the Day-Ahead Market for imbalance reserves should not be eligible to receive payment for Flexible Ramping Product in the Real-Time Market.

(2) The Six Cities remain concerned with potential opportunities for gaming Real-Time energy bids by resources procured for imbalance reserves in the Day-Ahead Market. As the Six Cities understand the ISO's Revised Straw Proposal, the ISO will procure imbalance reserves in the Day-Ahead Market based on the combination of capacity and energy bids. A resource could submit a low energy bid in the Day-Ahead Market to maximize its chances of being selected for imbalance reserves, receive a capacity payment for the imbalance reserves, and then submit a

very high energy bid in the Real-Time Market. If the capacity is needed to meet Real-Time uncertainty, the resource could be dispatched at the high energy bid, thereby driving up not only the revenues for that particular resource but also the market clearing prices for energy. If the need to meet Real-Time uncertainty can be met using a less expensive energy bid, the resource procured for imbalance reserves still would retain the capacity payment. The Six Cities recognize that limiting the Real-Time energy bids for capacity selected to provide imbalance reserves to the Day-Ahead energy bid that resulted in the imbalance reserve award might preclude resources from recovering legitimate costs that increase between the submission of the Day-Ahead bid and Real-Time (*e.g.*, when there are substantial increases in gas costs between Day-Ahead and Real-Time). The ISO should develop a mechanism to allow Real-Time energy bids for imbalance reserve capacity to increase to recover such increases in legitimate costs while preventing the type of gaming described above.

(3) The Revised Straw Proposal would not permit self-provision of imbalance reserves (*see* Revised Straw Proposal at 21). Although the Six Cities requested in their March 21, 2018 Comments on the Day-Ahead Market Enhancements Issue Paper/Straw Proposal that the ISO explain why precluding self-provision of imbalance reserves is necessary or appropriate, the Revised Straw Proposal contains no explanation or justification for that restriction. Self-provision of imbalance reserves should be permitted.

(4) The Revised Straw Proposal at pages 22-24 requests comments on two potential approaches for addressing non-performance of the obligation of imbalance reserve capacity to submit economic bids in the Real-Time Market. One approach would involve disqualification from providing imbalance reserves in the event of persistent non-performance of the economic bid obligation, and the other approach would involve clawback of the imbalance award payment or a multiple of the imbalance award payment if the required economic bid is not submitted. The Six Cities recommend application of both approaches.

Any failure by a resource to submit economic bids for an imbalance reserve award should result in disallowance or clawback of the imbalance reserve payment to the extent of the non-performance. This result is not properly characterized as a “penalty”; rather, it is simply a rescission of payment for a service that has not been provided.

If a resource regularly fails to submit Real-Time economic bids in conformance with imbalance reserves awards, then, in addition to disallowance of payment for imbalance reserve obligations not fulfilled, the resource should be subject to disqualification from providing imbalance reserves through the type of process described at page 23 of the Revised Straw Proposal. Such a disqualification process is appropriate to address repetitive non-performance of the economic bidding obligation and to discourage recipients of imbalance reserves awards from simply making an economic decision whether or not to comply with the economic bid obligation resulting from the award.

(5) The payment for imbalance reserves also should be disallowed or rescinded for failure to comply with Real-Time dispatch instructions. The Revised Straw Proposal indicates that if a resource receives an imbalance award in the Day-Ahead Market, is dispatched in the Real-Time Market, and does not follow the 15-minute or 5-minute dispatch instruction, it will be

charged for the costs associated with the uncertainty movement allocation of the Flexible Ramping Product but will retain the payment for the imbalance reserve award. *See Revised Straw Proposal at 27.* This is unduly lenient and could give rise to gaming. An award for imbalance reserves should carry not only the obligation to submit economic bids in the Real-Time Market commensurate with the imbalance reserves award but also the obligation to comply with any dispatch instructions. The point of establishing and paying for imbalance reserves is not only to create a pool of economic bids in Real-Time, but also to reserve a pool of capacity that will be available in fact. Like a failure to submit economic bids commensurate with an award of imbalance reserves, non-compliance with dispatch instructions amounts to a failure to provide the service for which the resource is being paid and should result in rescission or disallowance of the payment.

(6) In light of the Flexible RA requirements and related must-offer obligations, shortfalls of available flexible capacity suitable for supplying imbalance reserves should be limited, as noted at page 21 of the Revised Straw Proposal. To prevent a small shortfall of imbalance reserves from imposing disproportionate costs on market participants, the Six Cities support graduated or tiered penalty prices for imbalance reserves.

(7) The Revised Straw Proposal suggests at page 29 that consideration of deliverability in awarding imbalance reserves may not be necessary given the proposal to procure 5-minute imbalance reserves on a sub-regional basis. Avoiding unnecessary complexity is desirable, but paying for capacity that is ineffective in meeting the need for which it is being procured is not. The Six Cities urge the ISO to monitor closely the initial effectiveness of imbalance reserves procurement, with particular attention to whether deliverability issues prevent effective use of awarded imbalance reserves. If deliverability problems arise, the ISO should act promptly to ensure that all imbalance reserves are able to be used effectively.

Submitted by,

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