

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

Six Cities' Response: Please see comments discussing conceptual concerns at the end of this template.

Pros of option #1:**Cons of option #1:****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:

Six Cities' Response: Please see comments discussing conceptual concerns at the end of this template.

Pros of option #2:**Cons of option #2:**

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:

Six Cities' Comments: As municipally-owned Load Serving Entities (“LSEs”), the core functions of the Six Cities are procurement and delivery of reliable capacity and energy sufficient to meet the needs of the Cities’ customers at a reasonable cost. The Cities procure Resource Adequacy (“RA”) capacity from diverse types of capacity resources under contracts with varying lengths and rely on the ISO’s Day-Ahead Market for the majority of their energy requirements. In view of the high volume of energy transactions in the Day-Ahead Market, the Six Cities consider it crucial 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. At this time the Cities remain undecided as to whether either of the Day-Ahead Market design options outlined in the August 13, 2019 working group meeting would satisfy the test set forth in the preceding sentence.

Thus far, the ISO has presented the DAME options in the form of high level outlines without specifying implementation details. The Six Cities appreciate the ISO’s desire to avoid commitment of ISO and stakeholder resources to development of implementation details for a framework that may be unacceptable in concept. But it is impossible to effectively identify pros or cons of the design options or to evaluate whether a substantial change in the design of the Day-Ahead Market would meet the test of producing benefits in excess of costs while avoiding unintended consequences or opportunities for exploitation without having a clear understanding of how some of the fundamental elements of the design would be likely to work. The Six Cities to date have identified the following conceptual concerns that have not been addressed adequately in the discussions of the DAME options thus far:

- How will virtual bids interact with physical bids in the design options under consideration? 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?
- How will the market design options under consideration ensure that all capacity procured in the Day-Ahead Market will be deliverable to meet Real-Time demand if needed? Multiple commenters in the August 13 working group meeting and the subsequent Market Surveillance Committee discussion of the DAME initiative on August 19, 2019 referred to the on-going problems with deliverability of the Flexible Ramping Product in the Real-Time Market. Could deliverability issues undermine the value of any capacity procured in the Day-Ahead Market? Conversely, could resolution of the deliverability issue for the Flexible Ramping Product obviate the need for substantial changes to the Day-Ahead Market design? Would it make

sense to focus on solving the deliverability problem for the Flexible Ramping Product before moving forward with modification of the Day-Ahead Market design?

- More generally, how will the market design options under consideration ensure that capacity procured in the Day-Ahead Market provides value that is commensurate with the cost of procurement?

The Six Cities urge the ISO to provide analysis addressing the foregoing questions and concerns in any subsequent materials relating to DAME design options.