Stakeholder Comments Template
Day-Ahead Market Enhancements Phase 1 Initiative

This template has been created for submission of stakeholder comments on the straw proposal that was published on February 7, 2020. The proposal, February 10, 2020 Stakeholder meeting presentation, March 5, 2020 Stakeholder call presentation, and other information related to this initiative may be found on the initiative webpage 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 March 26, 2019.

<table>
<thead>
<tr>
<th>Submitted by</th>
<th>Organization</th>
<th>Date Submitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrie Bentley</td>
<td>Western Power Trading Forum</td>
<td>March 25, 2020</td>
</tr>
<tr>
<td><a href="mailto:cbentley@gridwell.com">cbentley@gridwell.com</a></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please provide your organization’s overall position on the DAME straw proposal:

- [ ] Support
- [x] Support w/ caveats – we strongly support the DA imbalance product being prioritized and IFM/RUC integration being developed solely within EDAM if needed.
- [ ] Oppose
- [ ] Oppose w/ caveats
- [ ] No position

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

1. New day-ahead market products, including reliability energy, reliability capacity, and imbalance reserves.

   WPTF continues to strongly urge the CAISO to prioritize the design and implementation of a day-ahead imbalance reserve product. Throughout this stakeholder initiative, discussions have indicated broad consensus for the need for an imbalance reserve product. Today, operators will often issue exceptional dispatches or conform (bias) the forecasted real-time load to ensure sufficient resources are available to address ramping and load following needs. Given that...
one of the main goals for this policy is to decrease operator intervention, implementing an imbalance reserve product will result in a significant portion of the out of market operator actions being priced within the market, and thus improving market efficiencies. WPTF supports the CAISO moving forward with designing a day-ahead imbalance reserve product and ensuring it will be deliverable when and where it is needed. WPTF notes operator intervention has remained high and that this can be directly tied to the need for an imbalance reserve product in the day-ahead market and for the real-time flexible ramping product to be improved. WPTF strongly supports the CAISO prioritizing these items.

**Average hourly load adjustment (Q4 2018 – Q4 2019)**

![Average hourly load adjustment graph](image)

Source: DMM Q4 2019 Report, Page 51

**Absent additional information, WPTF does not support combined IFM/RUC.** While we acknowledge general support for the combined IFM/RUC from many EIM entities, WPTF continues to note that the CAISO has not shown that its integrated IFM/RUC proposal is addressing a problem that needs to be solved. Even though the CAISO has the technological ability to combine the day-ahead IFM and RUC functions, does not mean it should. The CAISO continues to state that the proposed formulation co-optimizes energy, ancillary services, the proposed imbalance reserve product, and proposed reliability capacity. WPTF agrees that when products are co-optimized, absent bilateral market intervention, it often results in a more efficient outcome and price signals. However, the current formulation does not truly co-optimize reliability capacity with the other products because the two power balance constraints are set to two different requirements. While this is a nuanced mathematical point, the formulation leads to the practical implication that each unique product is not priced at its marginal offer, that
fundamental convergence bidding theory is upended, and that significant amounts of transparency in the day-ahead market will be lost.

Ultimately, WPTF believes that market efficiency and ability of the CAISO to produce meaningful incentives hinges on the transparency and rationality of day-ahead prices. The current proposal will so encumber those prices that we believe the risk of implementing the reliability capacity portion of this proposal is far-reaching and the potential benefits will not outweigh the cost of lost transparency in price signals.

Finally, WPTF is concerned at the lack of concrete data provided by the CAISO and the statements of other stakeholders stating that there is a tremendous amount of RUC inefficiency. There is not a tremendous amount of anything going on in RUC because it is an extremely low-cost feature of the CAISO energy market.

To put costs in perspective, in Q4 2019, RUC costs to the market were $240,000. In comparison:

- The total cost to serving load was $2.3 billion, of which RUC contributed .01% to these costs.
- Day-ahead energy costs were $2.14 billion, or 93.4% of the total cost to serve wholesale load
- Convergence bid net revenues were $5.5 million – over 22 times larger than RUC
- AS Costs in Q4 were $23 million – almost 100 times larger than RUC

The following table is from the Department of Market Monitoring 2019 Fourth Quarterly Report. On page 53, it states “In the fourth quarter of 2019, these costs decreased slightly to $0.24 million when compared to about $0.33 million in the same quarter of 2018.”
The low costs are because total RUC procurement averaged less than 1,000 MW per hour in the fourth quarter of 2019 – a slight increase from an average of 619 MW in the same quarter of 2018. These amounts include both short-start and long-start resources. Short-start resources have historically made up the largest percentage of RUC commitments because short-start RA resources are “free” to the optimization and come with a must-offer obligation into the real-time market. They are paid for their must-offer through their RA payment. This is because both contractually and through CAISO tariff rules, RA resources must offer into RUC at $0/MW. It is extremely important to note that bidding into RUC at $0/MW and giving any RUC payments back to the LSE is standard clause in RA contracts.

Thus, WPTF does not see that there is even the potential for a significant amount of efficiencies to be added by combining IFM and RUC. Given the low amounts of additional commitments in RUC due to the CAISO Forecast of CAISO Demand, adding an additional constraint to the day-ahead market is unlikely to do anything but reduce transparency. Finally, WPTF cannot find any data supporting the idea that the CAISO needs to do decommitment in RUC. All public RUC data that we reviewed shows a non-zero, positive amount of RUC commitment, which implies that the need to decommit in RUC is rare, or non-existent.

WPTF emphasizes that our position is based on public data from the Department of Market Monitoring and does not take into account potential costs from expanding the day-ahead market to the EIM entities. Absent any additional data from the CAISO demonstrating the need to radically change how day-ahead energy is priced, WPTF cannot support the CAISO’s integrated IFM/RUC proposal in this initiative.
2. **Settlement and cost allocations.**

WPTF supports PG&Es comments made on the March 5, 2020 call regarding cost allocation. The current cost allocation of the REN product is not aligned with cost causation principals.

3. **Bidding rules and offer obligations.**

WPTF is significantly concerned about the CAISO’s proposal to essentially move the existing real-time must offer obligation on RA resources to resources that are awarded in the day-ahead market. Furthermore, resources would only have a RT MOO for the hours in which it was awarded in the day-ahead market compared to today where RA resources have a RT MOO 24x7. This could theoretically work, but only if the CAISO’s day-ahead market is 100% accurate 100% of the time. Furthermore, this proposal could result in a tightening of supply made available in the real-time market which seems to exacerbate another issue the CAISO is already trying to address – tight system supply.

Lastly and most importantly, WPTF is concerned that what will end up occurring is CAISO operators will not be comfortable with the day-ahead awards and thus end up issuing exceptional dispatches in the real-time market to ensure enough resources are available in real-time when needed. Here again, this seems to contradict a goal of this initiative as it could end up increasing out of market exceptional dispatches.

4. **Scheduling rules for variable energy resources.**

No comment, except the CAISO in their next comment round should ask about scheduling rules for storage resources. WPTF is unclear how storage will be efficiency dispatched and paid for both their charge and discharge energy.

5. **Deliverability approach for reliability capacity and imbalance reserves.**

No comment.

6. **Approach for congestion revenue rights.**

WPTF believes additional discussion on the congestion revenue rights portion of this proposal is warranted. There was little time afforded at the end of the last stakeholder call to thoroughly walk through the implications of the proposed CRR treatment. WPTF is concerned that the proposal will result in increasing revenue inadequacy. As of 2019, the CRR revenue inadequacy is allocated back to CRR holders. Potentially increasing the amount of shortfall that will be allocated to CRR
holders could diminish the effectiveness of the CRR as a hedge by increasing the risk associated with holding a CRR.

7. **Approach for local market power mitigation.**

   WPTF will formalize a position on the local market power mitigation approach once more details are provided regarding the formulation of the default energy bid equivalent for reliability capacity and imbalance reserve product. WPTF would also appreciate more clarification on why the CAISO is proposing to mitigate the imbalance reserve product as well; this product seems most analogous to ancillary service products, which are not mitigated today except by a bid cap.

8. **Regression approach to determine the imbalance reserve requirement.**

   No comment.

9. **Additional comments:**

   On the MSC call the CAISO stated that combined IFM/RUC was “needed for EDAM.” Therefore, WPTF asks the CAISO to either provide evidence that combined IFM/RUC is beneficial and needed absent EDAM, or to move this aspect of the proposal within the EDAM process and lay out the goals of the future expanded day-ahead market clearly. This will allow all participants to assess the benefits of a combined IFM/RUC in the relevant context.