



## Stakeholder Comments Template

### Day-Ahead Market Enhancements Phase 2 Initiative

This template has been created for submission of stakeholder comments on the issue paper and straw proposal that was published on February 28, 2019. The paper/proposal, Stakeholder meeting presentation, and other information related to this initiative may be found 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](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on April 4, 2019.

Submitted by	Organization	Date Submitted
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**Please provide your organization's comments on the following issues and questions.**

#### 1. Proposed Day-Ahead Market Structure

Please provide your organization's feedback on the proposed day-ahead market structure topic as described in section 3 of the proposal. Please explain your rationale and include examples if applicable.

WPTF supports a phased approach where the CAISO prioritizes implementing a biddable flexible ramping product within the current day-ahead paradigm and then moves forward with broader market reforms that include RUC into the flexible ramping product if this appears to still be beneficial.

The CAISO has ambitious plans for the day-ahead market, but it is still not clear to WPTF what is driving the CAISO's need to fundamentally change the IFM/RUC paradigm. RUC appears to be working well and prices in the day-ahead market appear efficient and rational. WPTF notes that the CAISO has a long backlog of approved board policies that need to be implemented and that absent a reliability or market need, WPTF strongly supports the CAISO moving forward with needed enhancements such as the flexible ramping product, and then determining what else needs changing in the context of the extended DA market.

Should the CAISO continue with the proposed design, WPTF will provide comments on the design itself in the next draft, but again, we strongly urge the CAISO to reconsider.

Please provide your organization's position on the proposed day-ahead market structure topic as described in section 3 of the proposal. (Please indicate Support, Support with caveats, Oppose, or Oppose with caveats)

Oppose with caveats as described above.

## **2. Day-Ahead Flexible Ramping Product**

Please provide your organization's feedback on the Day-Ahead Flexible Ramping Product as described in section 4 of the proposal. Please explain your rationale and include examples if applicable.

WPTF supports creating a biddable flexible day-ahead product and encourages the CAISO to prioritize this element of the proposal within the current IFM/RUC paradigm. Based on the discussion at the stakeholder meeting, some elements need additional discussion. For example, how virtual supply and demand is accounted for in setting the requirement, use of AS sub-regions by which to procure FRP, and eligibility criteria. As noted in (1) above, WPTF will provide more detailed comments on the design itself in the next iteration but would appreciate additional discussion on the points noted above to help inform subsequent comments.

One aspect WPTF would like to comment on at this point is the proposed requirement for RA resources to bid in at \$0/MWh during a “transition” period. It is WPTF’s understanding that the reason the CAISO is proposing RA resources to be bid in at \$0 during the transition period is to allow for the RA contracts to recognize that the day-ahead flexible ramping product will be compensating resources for real-time flexibility. However, it seems as though there really is no need for such a “transition” period since changes to the standard confirm would not be necessary. Additionally, RA and non-RA resources should be equally compensated for ramping capabilities.

Please provide your organization's position on the Day-Ahead Flexible Ramping Product as described in section 4 of the proposal. (Please indicate Support, Support with caveats, Oppose, or Oppose with caveats)

Support with caveats.

## **3. Re-Optimization of Ancillary Services**

Please provide your organization's feedback on the re-optimization of ancillary services as described in section 5 of the proposal. Please explain your rationale and include examples if applicable.

### **Re-optimization of AS**

Any real-time enhancements should be delayed until after the day-ahead flexible ramping product is implemented. WPTF does not currently have a position on the re-optimization of ancillary services, except that it should be implemented after the flexible ramping product has been in the market and functional for at least a year. This will allow the CAISO to determine whether incremental AS procurement is working

better once the flexible ramping product ensures additional ramping capability is available in real-time.

The CAISO should consider re-allowing non-contingent spinning reserves if conversion from spin to energy is a concern. The CAISO states on page 6, "In cases when conditions improve between the day-ahead and real time markets (fifteen minute and five minute), operators currently have no ability to convert unneeded ancillary services to energy. Ensuring operators have this ability will improve the overall efficiency of the market."

It is WPTF's understanding that the CAISO used to allow non-contingent spinning reserves in the day-ahead market so that they could be released as energy if unneeded as spinning reserves in the real-time market, but that operators were converting non-contingent to contingent to prevent the conversion of spinning reserves to energy. This seems counter to the CAISO's current concerns so WPTF seeks clarification in the next draft.

### **Removing ability to provide economic offer for spinning and non-spinning reserves in real-time**

WPTF strongly disagrees with the CAISO proposal to remove bidding for spinning and non-spinning reserves in the real-time market.

1. The CAISO is supposed to be an independent administrator of a market between buyers and sellers of electricity. Absent market power, suppliers should be allowed to express their willingness to provide that product in their bid price. In all RTO and ISO markets, as set forth by FERC, mitigation procedures are based on the premise that in a competitive wholesale electricity market, a resource's offer will be approximately equal to its short-run marginal cost, including opportunity costs. If a resource does not have market power, the energy market, not administrative rules, impose competitive pressure that will discipline resources into bidding offer prices at or near its marginal cost.<sup>1</sup>
2. FERC acknowledges that offer prices may not be exactly at marginal prices and certainly will not be at ISO calculated marginal prices. Basic economic theory only has prices converge to the short-run marginal price under perfectly competitive conditions. A perfectly competitive market is a market that (among other assumptions) assumes the market has free entry and exit, large numbers of buyers and sellers, and no government regulation. This hardly fits California's energy market which is why the market is not (and should not) be designed around the idea that it is always most efficient for resources to offer their marginal cost.
3. The CAISO currently is getting real-time offers from generators to provide real-time spinning and non-spinning reserves. There has been no case made why this shouldn't continue to be allowed. If a generator that does not have market power wants to indicate their willingness to provide a service with a bid price, why would the CAISO not allow this?

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<sup>1</sup> <https://www.ferc.gov/legal/staff-reports/2014/AD14-14-mitigation-rto-iso-markets.pdf?csrt=16644386050652698166> page 3

4. The CAISO has asked for costs to provide spinning reserves and non-spinning reserves in real-time. WPTF notes the following situations all lead to it being more optimal for spinning and non-spinning reserves to have an offer price.
  - a. Risk. A resource is exposed to different risks to provide spinning and non-spinning than energy. Failure to respond to a single energy signal leads to buy-back of imbalance energy. Failure to respond to a contingency dispatch may lead to needing to do a costly retest of ancillary service capabilities or open themselves up to failure to respond under the tariff.
  - b. Unit preference. An owner of multiple units at a location may want to express their relative preference for a unit to be dispatched under spinning reserves versus energy. While three units within a resource may be able to provide the same amount of spinning and non-spinning reserves and have similar costs; due to other factors, the owner may have a preference which unit gets which award.
  - c. Fuel costs. A resource that has an energy award knows that they will burn their purchased fuel. A resource that purchases fuel for a spinning or non-spinning reserve award has increased balancing risk, in that the fuel *may* be used in the event of a contingency, but also *may not* be used if the resource is never dispatched.

Please provide your organization's position on the re-optimization of ancillary services as described in section 5 of the proposal. (Please indicate Support, Support with caveats, Oppose, or Oppose with caveats)

Oppose.

#### **4. Energy Imbalance Market Governing Body Classification**

Please provide your organization's feedback on the EIM Governing Body classification as described in section 6 of the proposal. Please explain your rationale and include examples if applicable.

No comment at this time.

Please provide your organization's position on the EIM Governing Body classification as described in section 6 of the proposal. (Please indicate Support, Support with caveats, Oppose, or Oppose with caveats)

#### **APPENDIX C: DRAFT TECHNICAL DESCRIPTION**

##### **5. Assumptions and Mathematical Formulations**

Please provide your organization's feedback on the assumptions and mathematical formulations included in Appendix C. Please explain your rationale and include examples if applicable.

No comment at this time.

Please provide your organization's position on the assumptions and mathematical formulations included in Appendix C. (Please indicate Support, Support with caveats, Oppose, or Oppose with caveats)

**Additional comments**

Please offer any other feedback your organization would like to provide on the Day-Ahead Market Enhancements Phase 1 initiative third revised straw proposal.