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Re: Day Ahead Market Enhancements Stakeholder Initiative

Please accept these comments on behalf of National Grid.

National Grid offers the following comments on the California Independent System Operator's Issue Paper/Straw Proposal on Day Ahead Market Enhancements dated February 28, 2018

General Comments

National Grid offers cautious support for the straw proposals set forth in the Issue Paper.

Specifically, National Grid:

- Agrees with the analysis describing the limitations of the current Day Ahead Market;
- Supports moving to Fifteen Minute granularity in the Day Ahead Market;
- Supports the proposal for Day-Ahead Fifteen-Minute Scheduling;
- Tentatively, supports the Imbalance Reserves proposal.

The various proposals would go far in maximizing the flexibility of the existing transmission grid and allow the CAISO to take advantage of flexible and ramping resources outside of California.

In future refinements of the Straw Proposal, National Grid hopes that CAISO will address the following topics:

Relationship between FRACMOO2 and DAME

Please provide more detail on the relationship between the forward procurement of flexible resource capacity (FRACMOO2) and the "Enhanced" Day Ahead Market for Imbalance Reserves. National Grid is concerned that the straw proposals in DAME will undermine the objectives of FRACMOO2 — to provide for the efficient retention and retirement of resources needed to maintain reliable grid operations by aligning resource adequacy requirements with operational needs and unnecessarily inflate costs associated with procuring flexible capacity.

Under FRACMOO2, load serving entities would be expected to procure 100% of their monthly forecast need for flexible reserves in their annual flexible resource capacity showing. If a load serving entity fails to procure sufficient resources in its annual showing, CAISO would exercise its backstop authority to procure additional reserves on the LSE's behalf. Under FRACMOO2, flexible resources designated in an LSE's annual showing have a must offer obligation into both the Day Ahead and the Real Time markets.

But under the Day Ahead Market Enhancements Proposal, resources submit bids to provide imbalance reserves. Resource adequacy resources are NOT required to bid $0.00. Resources that are awarded imbalance reserves would be paid the marginal clearing price; and only resources that are awarded imbalance reserves in the Day Ahead market would be required submit bids into the Real Time market. The proposal also prohibits self supply of imbalance reserves.

An LSE will have an obligation to identify in its annual showing resources capable of meeting 100% of its flexibility requirements for each month — presumably by contracting with flexible resources. Those flexible resources would then have an obligation to bid into the day ahead market; and if economic would receive an award to provide imbalance reserves. But the costs of the imbalance reserves awarded in the Day Ahead market are then allocated through the Two Tier Cost Allocation methodology — in part back to the LSEs that procured the flexible resources for their annual flexible capacity showing. How do LSEs avoid paying for the same flexible capacity twice?

Even worse would be a situation where an LSE procured 100% of its forecast need, but its chosen resource did not receive an imbalance reserve award in the day ahead market. At that point, it appears the resource has no obligation to bid into the real time market. But if the LSE's load deviates from its schedule, the CAISO will allocate it the cost of the reserves deployed on its behalf. How does the LSE avoid paying two separate resources for the same service?

It is possible that a resource identified in an LSE's flexible resource capacity showing should be required to bid $0.00 into the day ahead market for imbalance reserves. Any effort to create new day ahead imbalance reserve products should not undermine the objectives of FRACMOO2 — to provide for the efficient retention and retirement of resources needed to maintain reliable grid operations by aligning resource adequacy requirements with operational needs.

Treatment of Transmission Rights

The straw proposal describes a future initiative to extend the Day Ahead Market to Energy Imbalance Market entities. National Grid would support moving in that direction. National Grid recognizes that any extension of the Day Ahead Market to EIM entities will probably require changes to the way owners of transmission rights are compensated. National Grid looks forward to that discussion.

Thank you. Please contact me with any questions.

Very truly yours,

Henry R. Tilghman