

**Comments on Day-ahead Market Enhancements Phase 1  
Second Revised Straw Proposal  
Department of Market Monitoring**

September 18, 2018

DMM supports the direction that the ISO has taken in the latest straw proposal for day-ahead market enhancements. DMM is supportive of many individual elements of the revised proposal as well as the ISO's decision to break the initiative into two phases in order to allow more thoughtful consideration of the items that have been moved into phase 2.

In phase 1 of the initiative, the ISO has proposed changing the day ahead market from an optimization of 24 hourly schedules to an optimization of 96 fifteen minute schedules. This change will allow the day ahead market schedules to be shaped more like real time schedules. Import schedules, particularly those sourced at hydro units in the northwest, will also be able to be shaped more because of this change. Many of the resources that are the source of these imports need to be scheduled in advance, but can easily vary their output more often than hourly. By making this change the ISO will be able to better take advantage of the capabilities of these types of imports.

Most of DMM's concerns about the ISO's previous proposal are focused on items that have been moved to phase 2 of this initiative. We look forward to productive discussions and work on these items in the near future.

**Fifteen minute schedules and bidding**

The move to fifteen minute schedules in the day ahead market will allow the ISO better access to flexible resources around the west. It can also allow more precise pricing and scheduling of resources within the ISO footprint. DMM supports this change.

As discussed in earlier comments, DMM also supports the move to fifteen minute bidding in order to allow reasonable price formation in each interval.<sup>1</sup> In addition to improving pricing, this change may also allow day ahead schedules to be shaped more similarly to real time schedules.

**LMPM and fifteen minute day ahead granularity**

The ISO has not proposed any detailed changes to local market power mitigation (LMPM) procedures as part of this initiative. Current LMPM procedures in the day ahead and real time have slightly different formulations for supply of counterflow to constraints used in the Dynamic Competitive Path Assessment (DCPA) process. The ISO and stakeholders need to carefully evaluate whether or not the current day ahead LMPM/DCPA formulation can be applied without changes to the new day ahead market design. At this time DMM has not identified any specific changes that may be needed, but recommends that the ISO thoroughly consider how any market changes will interact with the LMPM/DCPA procedures and make any addition modifications that might be needed to ensure the effectiveness of market power mitigation.

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<sup>1</sup> *Comments on day ahead market enhancements revised straw proposal*, Department of Market Monitoring, May 24, 2018, p. 7: <http://www.caiso.com/Documents/DMMComments-Day-AheadMarketEnhancements-RevisedStrawProposal.pdf>

### **EIM sufficiency test changes**

DMM supports the modifications to EIM sufficiency tests being proposed. These changes should simplify market participation for EIM entities and allow increased market efficiency without significantly reducing the adverse consequences that an entity will face for habitually failing to schedule appropriately.

### **Ancillary Services (AS) self provision changes**

The ISO has proposed changing the current process for qualifying AS self provision and instead moving to use penalty prices. Any penalty prices used in the optimization can potentially have pricing impacts. DMM believes the ISO should provide more detail on how these prices will be formulated and used so that stakeholders can evaluate this proposed change.

### **Eligibility of hourly block imports and PDR resources in 15 minute RUC**

At the September 5<sup>th</sup> 2018 meeting of the ISO Board of Governors, ISO management stated that it is likely the ISO will look to change RUC eligibility rules for hourly block resources in conjunction with the change to 15 minute granularity in RUC under this initiative.<sup>2</sup> The ISO's current proposal does not contain any detail on potential changes regarding eligibility of hourly block imports or PDR for RUC. DMM encourages the ISO to offer a clear picture of this proposal so that stakeholders can evaluate and comment on it before DAME phase 1 reaches the Draft Final Proposal stage. In general, DMM questions proposed policy changes that may exclude resources from RUC unnecessarily because this can lead to costly over commitments and inefficient market results.

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<sup>2</sup> <http://www.caiso.com/Documents/Audio-BoardGovernorsMeeting-Sep5-2018.mp3> (beginning at minute 47)