



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:

Please see response to Option 2.

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:

WPTF believes an integrated approach may be feasible, but as highlighted during the working group and recent MSC meeting, may not provide benefits aligned with the risks and costs. In previous comments, WPTF delineated several thorny issues that will arise if the day-ahead financial market is effectively replaced with a physical reliability market. Primary among these is the entanglement of the bilateral Resource Adequacy market with the compensation for the proposed reliability capacity. Furthermore, this change to pricing in the day-ahead market will create fundamental changes in the meaning and usefulness of virtual offers, congestion revenue rights, and overall LMP. For example, market participants' ability to hedge energy price risk is impaired because these financial products would not clear and settle on both the financial and physical constraints. This leads to situation where CRRs/virtuals can settle/clear on different LMPs than the physical resource itself.

In addition, the CAISO has not shown that its proposal would necessarily lead to a more efficient market solution. While in theory combining the day-ahead RUC function into the IFM would shift RUC into the IFM optimization, it is not conclusive that this would lower overall production costs. Consider the case where real-time load comes in significantly lower than the day-ahead forecast. This would lead to an over commitment of resources (an increased cost to load) whereas today virtual transactions could discipline the commitment while the ISO continues to assess the need to RUC-on faster starting resources as real-time approaches. This optionality is lost when day-ahead commitments are systematically dependent on the ISO's day-ahead forecast instead of the market's bid-in demand followed by separate opportunities to RUC resources. Furthermore, the

lost value of being able to defer RUC commitments only increases as faster starting and flexible resources are brought to the grid to help manage supply variability.

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. Option 2 will so encumber those prices that we believe the risk of implementing Option 2 is far-reaching. It is unclear at this point if after addressing all the concerns and issues brought up by stakeholders and the MSC, the potential benefits will outweigh the costs and decrease in price transparency to the market.

WPTF appreciates that the CAISO is openly considering these trade-offs and asks that as the market design evolves there is even more focus on the goals of the day-ahead market and exploration of how well the market design is meeting those goals.

WPTF strongly urges the CAISO to prioritize the design and implementation of a day-ahead imbalance reserve product and improved real-time flexible ramping product. Throughout this stakeholder initiative, discussions have indicated broad consensus for the need for an imbalance reserve product, as well as recognition of the need to address outstanding issues and concerns with the real-time flexible ramping product. 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. Furthermore, all discussions to date point to the need for improvements to the real-time flexible ramping product so that procured day-ahead flexibility is preserved in real-time so that it can be reliably counted on by CAISO operators. WPTF urges the CAISO to undertake the needed improvements to the real-time flexible ramping product concurrently with the development of a day-ahead imbalance product.

WPTF believes that the day-ahead design should be discussed within the context of understanding whether an extended day-ahead market is moving forward or not. As noted in our comments on the June 20 working group meeting, if the day-ahead market is extended to EIM entities, the CAISO must consider how the day-ahead market should be changed to serve areas with different RA requirements and payment structures. It is crucial to ensure that whatever design for the IFM/RUC is implemented works with an extended day-ahead market. The enhancements to and extension of the day-ahead market must be considered holistically and with the right people in the room.

Ultimately, WPTF believes moving forward with a complete redesign of the day-ahead market without understanding of whether it is for the status quo EIM design or day-ahead EIM design is irrational. We ask the CAISO to acknowledge that day-ahead market design itself will need to meet different goals and underlying assumptions if extended to resources and load that may (1) voluntarily participate, (2) have a different resource adequacy structure, and (3) have different ramping and uncertainty considerations. Thus, WPTF cannot support either Option 1 or Option 2 without a better understanding behind the goals and obstacles the day-ahead market is supposed to support.

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:

No additional comments.