

Comments on CAISO BA Day-Ahead Sufficiency - Draft Final Proposal

Department of Market Monitoring

February 4, 2025

Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *CAISO BA Day-Ahead Sufficiency Draft Final Proposal*.¹ This initiative focuses on the day-ahead resource sufficiency evaluation (RSE) that will be implemented in the Extended Day-Ahead Market (EDAM). The initiative aims to (1) ensure the advisory RSE results for the CAISO BAA provides an accurate assessment of expected supply and demand obligations, (2) ensure that the RSE for the CAISO BAA accurately accounts for different types of demand response resources and strategic reserve resources, and (3) establish an approach to cure any remaining RSE shortfalls for the CAISO BAA. The initiative also discusses the topic of timely submission of e-tags for import capacity used to pass the RSE.

DMM supports the aspects of the draft final proposal that address the issues of advisory RSE results for the CAISO BAA, accounting for demand response and strategic reserve resources, and curing remaining RSE shortfalls. However, DMM notes that under the draft final proposal some reliability demand response resource (RDRR) capacity may be double-counted in the RSE. Further, we note that it may be appropriate to consider short start strategic reserve capacity in the CAISO BAA day-ahead RSE under similar conditions as RDRR, and that concerns of capacity double-counting would not apply in this case because strategic reserve resources do not submit day-ahead bids.

DMM does not oppose the ISO's proposal to monitor submission of e-tags for import capacity used to pass the RSE. However, we continue to highlight the potentially significant costs imposed on the market when a single participant's failure to tag even a small quantity can result in loss of diversity benefits in the Western Energy Imbalance Market (WEIM) RSE. DMM recommends the ISO be prepared to act quickly after EDAM go-live to develop and implement stronger incentives for timely e-tag submission if needed, in alignment with cost causation principles.

¹ *CAISO BA Day-Ahead Sufficiency - Draft Final Proposal*, California ISO, January 14, 2025: <https://stakeholdercenter.caiso.com/InitiativeDocuments/Draft-Final-Proposal-Day-Ahead-Sufficiency-Jan-14-2025.pdf>

The advisory RSE approach in the draft final proposal should provide an adequate assessment of the likelihood of CAISO BAA RSE failure

One purpose of this initiative is to ensure reasonably accurate results from the 9 a.m. RSE advisory run, so that there is sufficient time to cure any projected shortfall before the binding RSE at 10 a.m. Since day-ahead market bids are not due until 10 a.m., the advisory RSE may not account for all capacity that will ultimately be available. In order to account for expected bids not yet submitted by the 9 a.m. advisory RSE, the ISO previously proposed that for resource adequacy resources with bid insertion requirements, the existing bid insertion rules would apply at 9 a.m. For resource adequacy resources without a bid insertion requirement, the ISO would insert advisory offers for use only in the 9 a.m. advisory RSE, but discard these offers before the day-ahead market run.

The draft final proposal does not include the insertion of bids or advisory offers for the advisory RSE. The ISO has concluded through stakeholder input and additional analysis that a significant portion of resource adequacy capacity with a bid insertion requirement typically offers by 9 a.m. The ISO proposes to encourage (but not require) participants to submit day-ahead bids by 9 a.m. whenever possible. Further, the ISO notes that insertion of offers associated with resource adequacy capacity is still only an estimation of total available capacity as it does not account for non-resource adequacy capacity.

Finally, the draft final proposal discusses a number of other available market results that may be referenced to help determine the likelihood of an RSE shortfall.² These findings suggest that the advisory RSE may provide adequate information on the likelihood of RSE failure, even without estimating advisory offers and applying bid insertion for the advisory RSE. The ISO's findings further highlight that the potential benefits of this added functionality are uncertain.

DMM supports the draft final proposal approach to the advisory RSE for the CAISO BAA. DMM encourages the ISO to closely monitor advisory and binding RSE results after EDAM go-live to assess any need for potential future enhancements.

DMM supports inclusion of demand response capacity in the RSE

The draft final proposal clarifies treatment of demand response resources in the day-ahead RSE and advisory RSE for the CAISO BAA. DMM appreciates the ISO's clarification on the treatment of utility proxy demand response (PDR) resources that are not shown on supply plans, but count as a credit toward a load serving entity's resource adequacy (RA) requirements. DMM supports the ISO's proposal that these resources are RSE-eligible, but will only be included in the advisory RSE to the extent that they have submitted bids by 9 a.m., similar to other resources.

The draft final proposal also clarifies treatment of reliability demand response resources (RDRRs) in the day-ahead RSE and residual unit commitment (RUC) for the CAISO BAA. RDRRs

² Ibid., p 15

are resource adequacy resources, but are primarily meant for emergencies. RDRRs are eligible to participate in the day-ahead market, but only have a must offer obligation in the real-time market. The ISO proposes that if the 9 a.m. advisory RSE indicates an upward shortfall, and the CAISO BAA expects an Energy Emergency Alert (EEA) watch in real-time, RDRR capacity may be considered in the CAISO BAA RSE at the discretion of the CAISO system operators.

DMM supports the ISO's proposal to account for RDRR capacity in the day-ahead RSE when emergency conditions are forecasted and the advisory RSE suggests a shortfall is likely. By including RDRR capacity in the day-ahead RSE, the CAISO may be able to pass the day-ahead RSE and avoid the administrative penalty. In addition, the day-ahead RSE is meant to ensure there is capacity available, and RDRRs accurately represent additional capacity that is available in real-time emergency situations.

The draft final proposal may result in double-counting of some RDRR capacity

The draft final proposal further clarifies that RDRRs that have submitted day-ahead offers by the 9 a.m. advisory RSE will also be considered in the day-ahead RSE. Any additional capacity considered at operator discretion will only include capacity not offered by 9 a.m. However, the draft final proposal does not specify the treatment of day-ahead RDRR bids that come in after the 9 a.m. advisory RSE, but before the 10 a.m. cutoff for the day-ahead market. DMM understands that in this circumstance, there may be double-counting of some RDRR capacity from resources that submit bids between 9 a.m. and 10 a.m., but that CAISO operators have already elected to manually include in the binding RSE. DMM recommends the ISO mitigate this possible double-counting by implementing software that links capacity included at operator discretion to specific RDRR resource IDs, and ensures that if the same resource IDs appear in the binding RSE calculation due to a submitted bid, the capacity is only counted once in the binding day-ahead RSE.

RUC adjustments to account for RDRR capacity may be necessary, but can create additional uncertainty for low-priority exports

In addition to considering RDRR capacity in the RSE for the CAISO BAA, the ISO also proposes to adjust the RUC procurement target to account for RDRR capacity not bid into the day-ahead market. DMM understands that this may be necessary to prevent EDAM transfers from replacing RDRR capacity used to cure upward shortfall from the advisory RSE. In calculating any adjustment for RUC to account for RDRR capacity, the process should consider only RDRR capacity that was included in the RSE at operator discretion, but did not later submit a day-ahead bid. This would ensure that the potential double-counting problem described above does not flow into the RUC process.

While DMM understands the need to adjust RUC to account for unbid RDRR capacity, as noted in earlier comments, decreasing the RUC procurement target has implications for both low-priority (LPT) day-ahead exports and RDRR capacity dispatched in real-time emergency

conditions.³ A lower RUC procurement target can allow a greater quantity of LPT exports to clear RUC on days that the CAISO is forecasting emergency conditions. On such days, these additional LPT exports may be more likely to be curtailed in real-time. In addition, it may be possible that RDRR capacity is dispatched in real-time emergency conditions while some LPT exports that cleared RUC are not curtailed.⁴ In this instance, RDRR capacity may contribute to the real-time support of the potentially higher volume of LPT exports that cleared RUC.

DMM supports including strategic reliability reserve capacity in the RSE for the CAISO BAA

The ISO proposes to include long-start strategic reliability reserve (LS-SRR) capacity in the RSE for the CAISO BAA. CAISO operating procedures state that LS-SRR resources do not submit day-ahead bids, but will be started manually outside of the market, days in advance, to be available in real-time when emergency conditions are expected. Because these resources do not bid into the day-ahead market, but will be available to meet real-time forecasted emergency conditions, the ISO proposes that CAISO operators monitor LS-SRR activity and include this capacity in the day-ahead RSE when these resources have been brought online. DMM supports this approach since this is capacity that does not participate in the day-ahead market but will be available to meet real-time needs when emergency conditions are forecasted.

The ISO further clarifies in the draft final proposal that short-start strategic reliability reserve (short-start SRR) capacity will not be considered in the day-ahead RSE for the CAISO BAA. The ISO states that this is because these resources do not bid into the day-ahead market, are not qualified as RA, and do not have contracts creating must-offer obligations, and therefore do not qualify as RSE capacity.

DMM understands that while SRR are not RA capacity, short-start SRR resources would be expected to be available for dispatch in real-time under the same anticipated or realized emergency circumstances as RDRRs. Therefore, it may be appropriate to consider short-start SRR capacity located in the CAISO BAA in the day-ahead RSE for the CAISO BAA through the same approach as RDRR capacity that has not bid before the 9 a.m. advisory RSE.

Short-start SRR capacity in the CAISO BAA could be considered at operator discretion, when the 9 a.m. advisory RSE for the CAISO BAA, along with other operator sources, indicate an upward RSE shortfall in one or more intervals, and the CAISO BAA expects EEA Watch conditions in real-time. As with RDRR capacity included at operator discretion, making a proportionate adjustment to the RUC procurement target to account for any short-start SRR may be appropriate.

³ *Comments on Day-Ahead Sufficiency Straw Proposal*, Department of Market Monitoring, May 27, 2024: <https://www.caiso.com/documents/dmm-comments-on-day-ahead-sufficiency-straw-proposal-may-27-2024.pdf>

⁴ DMM's understanding is that if time permits, CAISO operators should verify LPT exports are being curtailed in an emergency before forcing RDRR dispatch. However, this may not always be possible and in such circumstances, RDRR may support some portion of LPT exports. *Operating Procedure 4420: System Emergency – Version No. 15.9*, p 13, California ISO, December 3, 2024: <https://www.caiso.com/Documents/4420.pdf>

Additional incentives may be needed for timely e-tag submission for day-ahead imports

As DMM has previously noted, during tight conditions, the EDAM policy for tagging non-resource specific imports could result in a small quantity of imports untagged by the short-term unit commitment (STUC) run. This can cause the entire balancing area to be removed from the EDAM pool for the Western Energy Imbalance Market (WEIM) RSE. DMM believes that the financial consequences of an EDAM failing the pooled WEIM RSE should be allocated to entities whose actions contribute to the failure. Identifying and appropriately allocating these financial consequences may provide important incentives to tag prior to the STUC run, for those imports that count towards the EDAM RSE.

DMM understands from the draft final proposal that the ISO is not planning to address this issue prior to the implementation of EDAM. The CAISO instead proposes to wait and determine whether additional incentives are needed to ensure that day-ahead imports into the EDAM BAAs are tagged within the timeframe required by the EDAM design.

DMM does not oppose the ISO monitoring this issue, and would support a future initiative focused on aligning penalties in a way to better incentivize appropriate tagging of non-resource specific imports. DMM recommends the ISO be prepared to act quickly after EDAM go-live to develop and implement stronger incentives for timely e-tag submission if needed, in alignment with cost causation principles.