

Comments on Day-Ahead Sufficiency Straw Proposal

Department of Market Monitoring

May 27, 2024

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Day-Ahead Sufficiency Straw Proposal*.¹ The Day-Ahead Sufficiency initiative focuses on the day-ahead resource sufficiency evaluation (RSE) that will be implemented for the CAISO BAA in the Extended Day-Ahead Market (EDAM). This initiative aims to ensure the 9 a.m. advisory results provide an accurate assessment of expected CAISO supply and demand obligations by appropriately accounting for demand response resources and strategic reliability reserves, and by curing any reliability concerns if there are remaining RSE shortfalls.

Accounting for demand response resources

The Straw Proposal states that proxy demand response resources that provide resource adequacy (RA) have a must-offer obligation into the day-ahead market, and the CAISO will insert advisory offers to count this RA capacity as RSE-eligible supply. There are two types of proxy demand response resources that provide RA: utility proxy demand response and third-party proxy demand response. Currently, only the third-party proxy demand response resources that provide RA are subject to must offer obligations. Utility proxy demand response resources, which count as a credit towards a load serving entity's RA requirements, are not shown on supply plans and thus do not have must offer obligations. DMM seeks clarification that utility proxy demand response resources will not be counted as RSE-eligible supply since the CAISO does not propose to insert advisory offers for resources without must offer obligations.

Reliability demand response resources (RDRR) are also utility demand response resources that are credited as a reduction to RA obligations for load serving entities. These resources are primarily meant for emergencies and are only required to submit real-time offers into the market. In the Straw Proposal, the CAISO proposes how it will account for RDRR in the day-ahead RSE for the CAISO BAA. If the 9 a.m. advisory day-ahead RSE indicates an upward shortfall and the CAISO expects emergency conditions in the real-time, the CAISO proposes to account for RDRR capacity in the RSE at the discretion of the CAISO system operators.

DMM agrees that RDRR should be counted in the day-ahead RSE. By including RDRR in the RSE, the CAISO may be able to pass the day-ahead RSE and avoid the administrative penalty.² In addition, the day-ahead RSE is meant to ensure there is capacity available. However, there is a

¹ California ISO, *Day-Ahead Sufficiency*, May 2024:

<https://www.caiso.com/InitiativeDocuments/StrawProposal-Day-AheadSufficiency.pdf>

² California ISO, *Extended Day-Ahead Market Final Proposal*, December 7, 2022, pp 70-74:

<https://www.caiso.com/InitiativeDocuments/FinalProposal-ExtendedDay-AheadMarket.pdf>

trade-off between whether or not the ISO adjusts the residual unit commitment (RUC) procurement targets by the RDRR capacity needed to cure the day-ahead RSE shortfall.

By adjusting the RUC procurement target, the ISO reduces the risk that transfers from other EDAM balancing authority areas cure an upward shortfall in the advisory RSE. However, adjusting the RUC procurement target may lead to more low priority (LPT) exports clearing the RUC in the day-ahead timeframe. Allowing more LPT exports to clear RUC on days that the CAISO forecasts emergency conditions in real-time may increase the risk that these LPT exports are instead curtailed in the real-time. In addition, it may be possible that RDRR must be committed in real-time while some LPT exports that cleared RUC are not curtailed.³ In this instance, RDRR may contribute to the real-time support of the potentially higher volume of LPT exports that cleared RUC.

If the ISO did not adjust the RUC procurement target by the RDRR capacity necessary to pass the day-ahead RSE, the ISO may potentially curtail low-priority exports in the day-ahead timeframe, rather than curtailing them in the real-time or allowing RDRR to support low-priority exports. In addition, if the RUC procurement target is not adjusted by RDRR, the ISO may procure additional capacity in RUC. This additional capacity may prevent the need to call on RDRR in the real-time. Although RDRR is a resource adequacy product that should be available when necessary, it is also very expensive and there is the possibility to procure more efficient capacity in RUC by not adjusting the procurement target. DMM believes the trade-offs between adjusting the RUC procurement target by the RDRR capacity needed to pass the day-ahead RSE should be discussed in further detail.⁴

Incentives for tagging day-ahead imports

DMM notes that 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, causing the entire balancing area to be removed from the EDAM pool for the Western Energy Imbalance Market (WEIM) RSE.⁵ 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.

³ DMM's understanding is that if time permits, CAISO operators should verify LPT exports are being curtailed before forcing RDRR CAISO operations procedures in an emergency.

California ISO, *Operating Procedure 4420: System Emergency – Version No. 15.6*, p 14, April 9, 2024:

<https://www.caiso.com/Documents/4420.pdf>

⁴ Department of Market Monitoring, *Comments on Day-Ahead Sufficiency Issue Paper*, January 5, 2024, p 2:

<https://www.caiso.com/Documents/DMM-Comments-on-EDAM-Resource-Sufficiency-Evaluation-Issue-Paper-Jan-5-2024.pdf>

⁵ *Ibid*, p 3

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