

July 12, 2018

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON,  
PASADENA, AND RIVERSIDE, CALIFORNIA ON UPDATES TO THE DAY-AHEAD  
MARKET ENHANCEMENTS REVISED STRAW PROPOSAL**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their comments on the June 19, 2018 and July 2, 2018 Workshops on Updates to the Day-Ahead Market Enhancements Revised Straw Proposal (the "Updated Revised Straw Proposal"):

The Six Cities continue to support (a) the overall goal of the Day-Ahead Market Enhancements of procuring resources in the Day-Ahead Market that will be better positioned to satisfy demand in the Real-Time Market reliably and efficiently (*see* Revised Straw Proposal at 5); and (b) in concept, the ISO's proposals to provide for 15-minute scheduling in the Day-Ahead Market, to combine the Integrated Forward Market ("IFM") and Residual Unit Commitment ("RUC") processes, and to procure in the Day-Ahead Market capacity that will have an obligation to submit economic bids for the Real-Time Market.

However, the Six Cities have several questions and/or concerns regarding the proposed Day-Ahead Market Enhancements that have not yet been resolved:

- (1) The Six Cities remain concerned with potential opportunities for gaming Real-Time energy bids by resources procured for Flexible Ramping Product ("FRP") in the Day-Ahead Market. As the Six Cities understand the ISO's Updated Revised Straw Proposal, the ISO will procure FRP in the Day-Ahead Market based on the combination of capacity and energy bids. A resource could submit a low FRP capacity bid in the Day-Ahead Market to maximize its chances of being selected for Day-Ahead FRP along with an energy bid based on anticipated costs, receive a capacity payment for the Day-Ahead FRP, and then submit a very high energy bid in the Real-Time Market. If the capacity is needed to meet Real-Time uncertainty, the resource could be dispatched at the high energy bid, thereby driving up not only the revenues for that particular resource but also the market clearing prices for energy. If the need to meet Real-Time uncertainty can be met using a less expensive energy bid, the resource procured for imbalance reserves still would retain the capacity payment.

The ISO's matrix of stakeholder comments and responses dated June 12, 2018 acknowledges the potential that this form of gaming could occur but asserts, without any supporting analysis or explanation, that "benefit of allow (*sic*) resources to change energy bid between day-ahead and real-time to reflect changes in marginal costs outweighs the potential risk." The Six Cities recognize that limiting the Real-Time energy bids for capacity selected to provide Day-Ahead FRP to the Day-Ahead energy bid that resulted in the Day-Ahead FRP award might preclude resources from recovering legitimate costs that increase between the submission of the Day-Ahead

bid and Real-Time (*e.g.*, when there are substantial increases in gas costs between Day-Ahead and Real-Time). However, allowing completely unrestricted changes to the energy bids of resources selected for Day-Ahead FRP is not necessary to enable legitimate cost recovery. The ISO should develop a mechanism to allow Real-Time energy bids for Day-Ahead FRP capacity to increase to recover increases in legitimate costs while preventing the type of gaming described above. At a minimum, the ISO should monitor the magnitude of changes in energy bids by resources receiving Day-Ahead FRP awards and investigate any patterns of increases in energy bids from Day-Ahead to Real-Time that do not appear related to increases in costs.

- (2) The Updated Revised Straw Proposal provides that a resource awarded Day-Ahead FRP that does not submit economic bids in the Real-Time Market will buy back the Day-Ahead FRP capacity award at the Fifteen Minute Market (“FMM”) price for FRP. The ISO does not propose any other consequence for failure by a resource awarded Day-Ahead FRP to comply with the obligation to submit Real-Time economic bids. The Six Cities are concerned that limiting the consequences for non-performance of the economic bid obligation associated with the award of Day-Ahead FRP to buy-back of the Day-Ahead FRP award at the FMM FRP price will not provide an adequate incentive for performance and may undermine the reliability objectives of Day-Ahead FRP procurement. Indeed, based on the ISO’s June 12, 2018 comments/response matrix, it appears that the buy-back approach would allow a non-performing resource to retain payment for Day-Ahead FRP. In response to a comment by NRG, the comments/response matrix states that “If a resource buys back in real-time, it will still receive the compensation for the cost of being available to the real-time market as this cost will not be reflect (*sic*) in the real-time clearing price.” A resource that receives a Day-Ahead FRP award but fails to comply with the obligation to submit economic bids in Real-Time has not been available to the Real-Time market and should not be permitted to retain the payment for the Day-Ahead FRP. If buy-back at the FMM FRP price would permit a resource to retain payment for service not provided in fact, then some form of clawback mechanism should apply.

If a resource fails on multiple occasions to submit Real-Time economic bids in conformance with Day-Ahead FRP awards, then, in addition to buy-back of the Day Ahead FRP at the FMM FRP price or application of a payment clawback mechanism, the resource should be subject to disqualification from providing Day-Ahead FRP through the type of process described at page 23 of the Revised Straw Proposal. Such a disqualification process is appropriate to address repetitive non-performance of the economic bidding obligation and to discourage recipients of Day-Ahead FRP awards from simply making an economic decision whether or not to comply with the economic bid obligation resulting from the award. Alternatively, in the event of multiple failures to submit Real-Time economic bids in conformance with Day-Ahead FRP awards, the ISO could increase the buy-back price to a multiple of the FMM FRP price.

There also should be meaningful consequences if a resource awarded Day-Ahead FRP fails to comply (or fails to comply on multiple occasions) with Real-Time dispatch instructions. An award for Day-Ahead FRP should carry not only the obligation to submit economic bids in the Real-Time Market commensurate with the Day-Ahead FRP award but also the obligation to comply with any dispatch instructions. The point of establishing and paying for Day-Ahead FRP is not only to create a pool of economic bids in Real-Time, but also to reserve a pool of capacity that will be available in fact. Like a failure to submit economic bids commensurate with an award of Day-Ahead FRP, non-compliance with dispatch instructions amounts to a failure to provide the service for which the resource is being paid and threatens reliability and should result in significant consequences, at least where the failure to perform is recurring.

- (3) The Six Cities continue to urge the ISO to monitor closely the initial effectiveness of Day-Ahead FRP procurement, with particular attention to whether deliverability issues prevent effective use of awarded Day-Ahead FRP capacity. If deliverability problems arise, the ISO should act promptly to ensure that all Day-Ahead FRP awards are able to be used effectively.

Submitted by,

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