Submit comment on Second revised straw proposal

Initiative: Day-ahead market enhancements

1. Please provide a summary of your organization's comments on the Day-Ahead Market Enhancements (DAME) second revised straw proposal:

The California Community Choice Association (CalCCA) appreciates the opportunity to comment on the DAME second revised straw proposal. CalCCA supports this initiative's objective of improving the day-ahead market's ability to sufficiently schedule resources to cover net-load uncertainty and reduce the need for out-of-market actions. However, the must-offer obligation elements proposed in the transition period create significant concerns that the proposal will increase costs to ratepayers while limiting the California Independent System Operator's (CAISO's) access to resources already procured to meet real-time energy needs.

CalCCA offers the following comments on the second revised straw proposal:

- CalCCA supports applying market power mitigation to imbalance reserve offers in the IFM and reliability capacity offers in the RUC;
- The CAISO should consider basing the default capacity bid on opportunity costs rather than historical spinning reserve prices;
- CalCCA supports a mechanism to consider energy offer costs when awarding imbalance reserves and reliability capacity in the upward direction, but the proposed approach may not meet the objective of awarding imbalance reserves and reliability capacity to low energy cost resources; and
- The CAISO should (1) maintain the real-time must offer obligation for resource adequacy (RA) resources, and (2) require RA resources bid zero dollars for imbalance reserves and reliability capacity and evaluate the impacts of removing the zero-dollar bidding requirement within the Extended Day-Ahead Market (EDAM) initiative.

2. Please provide your organization's comments on the proposed changes to the market power mitigation (MPM) pass for the integrated forward market (IFM):

CalCCA supports applying market power mitigation to imbalance reserve offers in IFM and reliability capacity offers in RUC. However, as discussed in section 8, it is not clear historical spinning reserve prices will reflect costs of being available as imbalance reserves or reliability capacity.

3. Please provide your organization's comments on the proposed changes to the IFM:

No comments at this time.

4. Please provide your organization's comments on the proposal for an additional market pass to perform MPM for the residual unit commitment (RUC) process:

CalCCA supports applying market power mitigation to imbalance reserve offers in IFM and reliability capacity offers in RUC. However, as discussed in section 8, it is not clear historical spinning reserve prices will reflect costs of being available as imbalance reserves or reliability capacity.

5. Please provide your organization's comments on the proposed RUC process changes:

No comments at this time.

6. Please provide your organization's comments on the proposed real-time market ramp deviation settlement:

No comments at this time.

7. Please provide your organization's comments on the proposed method to account for energy offer cost in upward capacity procurement:

CalCCA supports a mechanism to consider energy offer costs when awarding imbalance reserves and reliability capacity in the upward direction, but the proposed approach may not meet the objective of awarding imbalance reserves and reliability capacity to low energy cost resources. As a way to account for energy offer costs when procuring upward imbalance reserves or reliability capacity, the CAISO proposes to make resources ineligible to be awarded imbalance reserves or reliability capacity on any capacity segment with an associated energy bid that exceeds the forecasted price under P97.5 uncertainty. However, in real-time, a resource's energy bid would not be capped at the forecasted price. This leaves the opportunity for resources to bid below the cap in day-ahead such that they are awarded imbalance reserves or reliability capacity in day-ahead and then bid for energy above the cap in real-time. This limits the ability of the CAISO's proposal to meet the objective of awarding imbalance reserves and reliability capacity to lower energy cost resources. CAISO should consider capping real-time energy bids at the higher of forecasted P97.5 price or the resources default energy bid price to address concerns that real-time energy bid caps will dispatch resources below their marginal costs.

8. Please provide your organization's comments on the proposed default capacity bid, including feedback on the appropriate price based on historical spinning reserve prices:

CalCCA supports developing market power mitigation measures for imbalance reserves and reliability capacity, but additional discussion is needed on how to establish the default capacity bid for those products. The CAISO proposes to use historical spinning reserve prices to inform the default capacity bid price, which would set the mitigated bid price for all resources except those with a negotiated price. However, it is not clear historical spinning reserve prices will appropriately reflect competitive prices for imbalance reserves and reliability capacity given imbalance reserves and reliability capacity will provide different services than spinning reserves and they will be used for different purposes. For capacity products, the default capacity bid should represent a resource's opportunity cost for providing the product. Rather than basing the default capacity bid on historical spinning reserve prices, the default capacity bid should reflect opportunity costs.

In addition, the CAISO should clarify whether it is the CAISO's intent to utilize the default capacity bid to insert bids for imbalance reserves and reliability capacity in day-ahead market. Currently, the CAISO inserts bids for RA resources at their default energy bid in both day-ahead and real-time in the event scheduling coordinators do not submit energy bids themselves. It is not yet clear how bid insertion will work in relation to the new products proposed in DAME. The CAISO should clarify if they will insert imbalance reserve and reliability capacity bids into day-ahead at the default capacity price. The CAISO should also clarify if resources with imbalance reserve or reliability capacity awards will have bids inserted for energy at their default energy bid if they do not bid themselves in real-time, as is done for RA resources today.

9. Please provide your organization's comments on the proposed variable energy resources eligibility to provide new products:

No comments at this time.

10. Please provide your organization's comments on the proposed transition period for DAME enhancements:

CalCCA urges the CAISO to reconsider the modifications to the RA must offer obligations proposed in this initiative. Today, RA resources are obligated to submit RUC availability bids at zero dollars and are not paid the RUC clearing price if committed through the RUC process. RA resources must then bid into real-time, regardless of whether or not they are committed in day-ahead. This structure is in place because load-serving entities (LSEs) have already entered into contracts with RA resources paying for them to be available through real-time to provide energy. Under this initiative, the CAISO proposes a transition period that would last until the year of EDAM onboarding, in which RA resources would be required to bid zero for imbalance reserves and reliability capacity in the day-ahead market and would receive the marginal price for both products. RA resources would then be required to bid into the real-time market regardless of their imbalance reserve or reliability capacity awards. After the transition period, RA resources would no longer be required to bid zero for imbalance reserves or reliability capacity and would not be obligated to bid in real-time if they did not receive a day-ahead award. As described below, CalCCA recommends the CAISO maintain the real-time must offer obligation for RA resources and require RA resources bid zero dollars and not receive the marginal price for imbalance reserves and reliability capacity until the impacts of removing the zero-dollar bidding requirement can be evaluated within the EDAM initiative.

First, the CAISO should maintain the real-time RA must offer obligation given the cost and reliability impacts of removing it. LSEs in California have entered into RA contracts that procure capacity obligated to be available to the CAISO market to be turned into energy. Because RA resources are already paid to be available to provide energy through real-time, the CAISO should not release that capacity already paid for after the day-ahead market. The CAISO proposes the transition period in part to allow time for RA contracts to be updated to account for the removal of the zero-dollar bidding requirement. However, the ability for LSEs to renegotiate RA contracts already executed to account for this change will be difficult given tight supply conditions in the RA market. The CAISO's Stack Analysis shows that total RA capacity is very limited, with little or no excess of system resources over coming years until additional resources come online through the Integrated Resource Planning process.[1] Such tightness in the RA market will make it difficult for LSEs to renegotiate RA contracts to reflect the new structure in which costs of real-time availability are recovered through the new DAME products rather than RA contracts. The result of implementing this change under current RA market conditions could result in LSEs paying for resources to be available to provide energy twice; first within the RA market when procuring RA capacity and second within the day-ahead market when procuring imbalance reserves and reliability capacity. As such, CalCCA has significant concerns around the feasibility of renegotiating RA contracts at a reasonable price to facilitate this structural change without significant increases in ratepayer costs.

Additionally, if RA resources are relieved of their must offer obligation after the day-ahead, the CAISO market would not receive the full benefit of having all resources and their attributes that have already been paid for available to meet grid needs. Relieving RA resources of their real-time must offer obligation after day ahead could result in the CAISO needing to rely on out-of-market actions to access the resource in the event conditions in real-time require additional resources beyond what is procured through the imbalance reserve or reliability capacity products to maintain grid reliability. Given the costs of making resources available through real-time are already covered in RA contracts, the CAISO should not limit its access to resources already procured to maintain grid reliability, and instead, should maintain the real-time must offer obligation for RA resources within this initiative.

[1] *Testimony of Jeff Billinton On Behalf of the California Independent System Operator*, Rulemaking (R.) 20-11-003, Jan. 11, 2021, Table 2 at 12.

CalCCA understands the rationale behind removing the zero-dollar bidding requirement under an EDAM where resources in other balancing authority areas would be bidding for the same products without the zero-dollar bidding requirement. However, given the difficulty LSEs will face renegotiating contracts under current RA market conditions, the CAISO should not consider removing the zero-dollar bidding requirement within the DAME initiative. Additionally, the CAISO should not pay RA resources the marginal price for imbalance reserves and reliability capacity since existing RA contracts already compensate resources for being available through real-time. Instead, the CAISO should maintain the zero-dollar bidding requirements and continue not to pay resources for capacity already accounted for in RA contracts indefinitely until this change can be evaluated within the EDAM initiative. This consideration should include potential alternatives to modifying the zero-dollar bid requirement given the double payment concerns and tight RA market conditions that exist today.

11. Please provide your organization's comments on the proposed treatment of metered subsystems, existing transmission contracts, and transmission owner rights:

No comments at this time.

12. Please provide your organization's comments on the proposed EIM Governing Body advisory role classification:

No comments at this time.

13. Please provide any additional comments on the DAME second revised straw proposal that have not previously been addressed:

CalCCA is interested in how this proposal interacts with storage, co-located, and hybrid resources. Specifically, CalCCA asks how the individual components of co-located resources would be priced and dispatched under the current proposal for default capacity bids, and if and how the day-ahead market will award imbalance reserves and reliability capacity to co-located resources in accordance with their aggregate capability constraints.