California Community Choice Association

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1. Please provide your organization's feedback on the changes made to the Day-Ahead Market Enhancements final proposal:

The California Community Choice Association (CalCCA) appreciates the California Independent System Operator (ISO) including the Resource Adequacy (RA) true-up mechanism and storage Residual Unit Commitment (RUC) participation rules in the Revised Final Proposal. CalCCA supports the RA true-up mechanism and proposes a modified process for its sunset. CalCCA also generally supports the RUC participation rules but requests clarification regarding RA and non-RA bidding obligations and how the multipliers in the envelope equations will be determined.

The Revised Final Proposal includes a settlement mechanism that would allow contracting parties to opt-in to a RA capacity true-up in which the ISO will compensate the load-serving entity for opt-in RA capacity at the respective imbalance reserve capacity price (minus opportunity costs) and/or reliability capacity price. The ISO is proposing this as a transitional mechanism that would be in place for three years to allow time for existing contracts to roll off or be renegotiated. CalCCA supports the ISO's proposed RA true-up mechanism, but recommends the ISO modify the three-year sunset date, given existing contracts may be long term, and expire later than three years into the future. Renegotiating contracts could result in increased costs given the constrained RA market.[1]

CalCCA recommends the following process for sunsetting the RA true-up mechanism:

- The ISO implements the RA true-up functionality and keeps it in place for at least three years (e.g. 2025, 2026, and 2027 assuming a Fall 2024 implementation). After three years, if no market participant uses the functionality for one full year (e.g., no market participant uses it in 2028), the ISO would notify market participants of its intent to retire the functionality. The ISO would give market participants an opportunity to demonstrate that they will use the functionality in the upcoming year (e.g., in 2029) and if no party can demonstrate they will use it within the next year, the ISO would then remove the functionality.

The Revised Final Proposal also proposes allowing storage resources to participate in the RUC process. CalCCA supports this proposal. As storage resources become a larger and larger portion of the resource mix, barring storage from participating in RUC could cause market inefficiencies. The last bullet on slide 12 from the April 17, 2023 workshop seems to imply that the ISO would require RA and non-RA storage resource participation in RUC.[2] The ISO should clarify in its proposal that RA storage will be required to participate in RUC, while non-RA storage will have the ability to participate in

RUC but not be required to participate in RUC. This maintains the current RUC bidding requirements that only require participation from RA resources.

During the April 17, 2023, workshop, the ISO presented how it will use envelope constraints to ensure RUC awards do not impact state-of-charge given storage cannot provide RUC capacity without state-of-charge. The ISO's proposal to use envelope equations to prevent RUC awards that are inconsistent with actual state-of-charge or the upper/lower bounds from the envelope equations could be effective at ensuring storage can deliver on its RUC awards and other awards. More discussion is needed, however, on how the ISO will set the multipliers in the envelope equations that will be used to estimate how much imbalance reserve capacity will be converted into energy and therefore impact state-of-charge. CalCCA requests additional discussion in the revised final proposal outlining how the ISO will choose to set the multiplier values and the impacts of any inconsistencies with setting the multiplier less than one and the nodal imbalance reserve design.

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[1] The California Public Utilities Commission's *2021 Resource Adequacy Report (Mar. 2023)* demonstrates the tightness in the RA market causing increased costs: "The weighted average price of system RA for both seasons has increased each year, and at an accelerating pace. Average August prices were $3.13/kW-month in 2017 but increased each year thereafter. By 2021 the average price had risen to $8.07 kW/month, an increase of 158 percent over just 5 years." https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-homepage/2021_ra_report.pdf. Counterparties will be unlikely to renegotiate long term contracts to account for new revenue streams from ISO capacity payments as RA prices continue to increase dramatically – the result will be increased overall costs.

[2] *See* http://www.caiso.com/InitiativeDocuments/Presentation-Day-AheadMarketEnhancements-Apr17-2023.pdf.