



## **Comments on Fourth revised straw proposal and Nov 1, 2022 stakeholder call discussion**

Initiative: Day-ahead market enhancements

### **Comment period**

Nov 02, 2022, 12:00 pm - Nov 15, 2022, 05:00 pm

### **Submitting organizations**

California Energy Storage Alliance

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Submitted on 11/18/2022, 09:33 am

### **Contact**

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### **1. Please provide a summary of your organization's comments on the Day-Ahead Market Enhancements (DAME) 4th Revised Straw Proposal and the November 1, 2022 stakeholder call discussion:**

CESA offers the following comments to the Fourth Revised Straw Proposal (FRSP):

The ISO should not enforce a real-time energy bid price cap for resources awarded Imbalance Reserve (IR)

The use of local market power mitigation (MPM) for IR is neither properly documented nor warranted given the fact that a bid cap will be in place.

If the CAISO continues to advocate for MPM for IR, it should explain in more detail the interactions between this provision and the energy MPM.

The CAISO should not seek to establish any form of cost allocation for Reliability Capacity (RC) as it applies to Resource Adequacy (RA) assets.

These matters are already addressed in RA contracts and the development of CAISO mechanism is unwarranted.

### **2. Provide your organization's comments on the summary of changed from the third revised straw proposal and responses to stakeholder feedback, as described in section 1:**

See CESA's answer to Questions 1, 4, and 5.

### **3. Provide your organization's comments on the need for DAME, as described in section 2:**

CESA offers no comments at this time.

**4. Provide your organization's comments on the proposed DAME, as described in section 3:**

**The use of local market power mitigation (MPM) for IR is neither properly documented nor warranted given the fact that a bid cap will be in place.**

In section 3.2 of the FRSP, the ISO notes that MPM would be applied to the IR product. Specifically, regarding local MPM for IR, the ISO underscores that it would be based on the same optimization, bids, set of binding constraints, and set of shift factors as for energy. Since the CAISO mitigates energy offers through the use of default energy bids (DEBs), the ISO proposes the creation of a homologue for availability, a default availability bid (DAB). The DAB would thus be used to mitigate imbalance reserve offers to the higher of it or the competitive locational marginal price.

CESA does not support the use of local MPM for IR, particularly considering the limited documentation regarding its potential effects. In this context, if the CAISO continues to advocate for MPM for IR, it should explain in more detail the interactions between this provision and the energy MPM. More fundamentally, CESA does not support application of MPM considering that the IR product will already be subject to a bid cap which greatly eliminates the opportunity for an asset to exert market power.

**The CAISO should not seek to establish any form of cost allocation for Reliability Capacity (RC) as it applies to Resource Adequacy (RA) assets.**

In section 3.5 of the FRSP the ISO describes a proposal to ensure reverse settlement of RC payments made to RA resources given that those revenues have been defined by some stakeholders as potentially duplicative. Given said claims, the ISO proposes that a resource's RCU/RCD awards will be stacked above/below the resource's IFM schedules (energy, ancillary services, and imbalance reserves) to determine the overlap with RA capacity. Then, settlements will reverse the RCU/RCD payments for the RCU/RCD awards that overlap with RA capacity and distribute to metered demand based on load ratio share. Finally, settlements would calculate and allocate the RCU/RCD costs based on the approach proposed above.

CESA opposes the ISO establishing any form of cost allocation mechanism for RC considering that these matters are already addressed in RA contracts. The development of CAISO mechanism is unwarranted given its duplicative nature.

**5. Provide your organization's comments on the additional DAME design considerations, as described in section 4:**

**The ISO should not enforce a real-time energy bid price cap for resources awarded Imbalance Reserve (IR).**

In section 4.3 of the FRSP, the CAISO describes a proposal that would enforce a real-time energy bid price cap on all resources that receive an imbalance reserve up or reliability capacity up award. The ISO notes that this proposal would set the real-time energy bid price cap consistent with the price expected if the entire upward uncertainty requirement materialized. To set the real-time energy bid cap, the CAISO proposes to use a forecasted price using statistical regression.

CESA does not support the establishment of a real-time energy bid price cap for resources awarded IR. Resources must be able to reflect their actual costs in energy bids, which is important for price formation and efficient market outcomes. The establishment of such cap is not clearly warranted considering the ISO's ultimate goal should be to ensure that it will have the adequate mix of resources to cover intra- and inter-hourly needs. Furthermore, offer caps would limit the generator's ability to reflect their marginal costs of operation in the real-time energy market. There is an even higher need for flexibility in real-time energy offers during tight supply conditions due to various reasons, like severe weather conditions and gas supply shortages. In this context, all post-market cost recovery processes are inherently inefficient and dilute market signals. The same set of issues (DAME mitigation rules and real-time offer caps) affects use-limited resources like hydro and energy storage, which require flexibility in the real-time energy offers to reflect the opportunity cost to provide power. Thus, we recommend that CAISO consider implementing DAME without the real-time offer caps, monitor the market metrics, and carefully consider the real-time offer caps for future enhancement.

**6. Provide your organization's comments on the alignment between Resource Adequacy, DAME, and the Extended Day-Ahead Market, as described in section 5:**

CESA offers no comments at this time.

**7. Provide your organization's comments on the proposed WEIM Governing Body Role, as described in section 6:**

CESA offers no comments at this time.

**8. Provide any additional comments on the Day-Ahead Market Enhancements (DAME) 4th Revised Straw Proposal and the November 1, 2022 stakeholder call discussion:**

CESA offers no comments at this time.