

## **Comments of Powerex Corp. on Day-Ahead Market Enhancements: Third Revised Straw Proposal**

<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
Raha Darvishi 604.891.6074	Powerex Corp.	May 19, 2022

Powerex appreciates the opportunity to submit comments on CAISO’s Third Revised Straw Proposal in the Day-Ahead Market Enhancements stakeholder proceeding.

From the inception of this initiative—which commenced more than four years ago—the CAISO has acknowledged the pressing operational challenges faced by CAISO operators due to a lack of upward and downward flexible reserves to address uncertainty and variability in net load between the day-ahead and real-time timeframes. While the existing day-ahead market may have been adequate to maintain reliability when it was designed nearly two decades ago, recent experience has demonstrated that it is simply incapable of meeting the challenges of a decarbonized grid characterized by increasing uncertainty and variability due to increasing amounts of variable energy resources and the retirement of thermal generation resources.

Powerex believes that meeting these challenges will require a fundamental redesign of the day-ahead market. Modifying the design of the day-ahead market to procure sufficient upward and downward flexibility to address uncertainty and variability is a necessary component of this redesign. Powerex believes, however, that fully addressing the shortcomings of the existing market design will require abandoning reliance on sequential and separate procurement of energy, capacity, and flexibility through the RUC and out-of-market processes—an approach that undermines efficiency by increasing production costs, increasing reliability risks, and suppressing market clearing prices through reliance on systemic out-of-market procurement and side payments, and that is likely to prove completely unworkable in the context of a regional day-ahead market. Powerex believes that meeting the challenges of a decarbonized grid will require transitioning to a fully integrated day-ahead market that co-optimizes the procurement of the energy, capacity, and flexibility necessary to meet system needs with a high degree of confidence and that appropriately distinguishes between resources based on their specific capacity and flexibility attributes.

Unfortunately, despite CAISO’s clear articulation of the challenges that it faces and the reforms necessary to meet these challenges, CAISO’s ability to pursue the necessary design changes has been hampered by consistent resistance by California load interests, which appear opposed to any solution that has the effect of ensuring that California’s need for capacity and flexibility is accurately reflected in market prices. The result is that this initiative is now focused on a narrow, watered-down set of market reforms that—while an improvement over the status quo—becomes further diluted with each iteration of the proposal and falls far short of the modern market design needed to manage a decarbonized grid in the west. To make matters worse, the limited set of

reforms that are being considered are being paired with new, expansive local market power mitigation measures<sup>1</sup> that are likely to prove unworkable for entities outside of California, including energy-limited resources (e.g., Pacific Northwest hydro) and natural gas-fired resources in the Southwest with fuel constraints.

Powerex encourages the CAISO to refocus this proceeding on the more holistic market design changes that are needed to maintain reliability in the context of a rapidly changing grid. As CAISO has recognized, the outcome of this proceeding is likely to prove pivotal to the success or failure of the extended day-ahead market (“EDAM”) initiative. Powerex believes that moving forward with a limited set of changes that reflect the interests of a narrow set of California interests and that are likely to prove unworkable for a critical mass of western entities will only serve as a further stumbling block to CAISO’s EDAM efforts.

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<sup>1</sup> CAISO’s DAME proposal includes (1) applying LMPM to day-ahead imbalance reserves, (2) applying LMPM to reliability capacity secured through the RUC process, and (3) broadening the application of LMPM to day-ahead energy bids based on congestion that may only be observed under low-probability imbalance reserve “deployment” scenarios. Furthermore, CAISO’s proposal to mitigate reliability capacity and imbalance reserves would not provide resources with a default availability bid, further increasing the risk of resources being mitigated below their costs.