

WESTERN ENERGY IMBALANCE MARKET (WEIM)

DAY-AHEAD MARKET ENHANCEMENTS (DAME) Opinion on Revised Final Proposal

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This presentation summarizes my opinions on the DAME Revised Final Proposal.

- As requested by the Governing Body, my assessment focuses on:
 - The market rules proposed in the DAME for Imbalance Reserves (IR).
 - Whether the proposal is prudent, fair, and will support the success of the EDAM for the benefits of its participants.
- The opinions presented here are discussed in a related memo posted on the WEIM website.

The DAME proposal for Imbalance Reserves is a necessary step forward to unlock the benefits of the EDAM.

1. A major reason for BAAs to join the EDAM is to decrease the costs and increase the reliability of their service to load. All EDAM BAAs will benefit by sharing flexible resources in the real-time dispatch.
2. The EDAM market design requires a way for the system operator to arrange for flexible resource capacity in the EDAM BAAs to efficiently and reliably manage EDAM real-time net load uncertainty and within-hour variations.
3. The EDAM design will not work without equitable rules for scheduling and paying for flexible resources scheduled day ahead across the BAAs in the EDAM footprint.

At a policy level, I support the DAME proposal for how Imbalance Reserves will be scheduled in the EDAM Integrated Forward Market.

1. The California ISO's choice of a nodal model for the IR market design is prudent.
 - a. It will enable deliverability tests that will be important for managing the reliability of the EDAM.
 - b. The development and deployment of new ISO software takes years. It is important to develop software anticipated to be sufficient to address electricity market changes unfolding over many future years.
 - c. Flexible parameters included in the nodal model can be tuned to address IR design objectives, such as IFM optimization solution time, price levels, and reliability improvements.
2. I find the California ISO's approach to initially setting the IR demand curve prices to be reasonable.

At a policy level, I support the DAME proposal for how Imbalance Reserves will be scheduled in the EDAM Integrated Forward Market (continued).

3. The IR proposal introduces new and untested market design features, but the California ISO anticipates the need for extensive testing and gradual implementation.
4. Because the IR market design and software are original and new, it is reasonable to provide the California ISO with the latitude to explain the logic for the initial settings of certain flexible model parameters in BPM, as well as the logic and rules for adjusting some parameters post-launch.

At a policy level, I support the DAME proposal for how Imbalance Reserves will be scheduled in the EDAM Integrated Forward Market (continued).

5. Notwithstanding my overall support for affording the CAISO latitude in setting the criteria for the flexible parameters, I have concerns about the absence of guiding principles.
 - a. The addition of principles to guide the logic for setting the flexible parameters would add substantial transparency to the CAISO process, because the parameter settings will need to balance tradeoffs among DAME objectives.
 - b. Additional clarity could also be provided about whether principles will be consistently applied to develop criteria for setting different parameters and for determining initial parameter settings for each BAA.

Note: The next page amends the conclusions stated below, which were in the version of this presentation posted on May 10, 2023.

While I support the DAME proposal for scheduling IR, the Revised Final Proposal does not include sufficient description of the rules for the allocation of IR costs for me to conclude that the rules will be workable and fair.

1. It is unclear whether the California ISO's proposal for allocating the costs of the IR scheduled day-ahead among EDAM BAAs will be workable, because of how IR will be scheduled in the IFM co-optimization.
2. The proposal, as I currently understand it, may not be consistent with the EDAM design under which BAAs would share their IR resources in real-time at no charge to reduce costs and maintain reliability for all EDAM BAAs.

May 15, 2023 - Addendum

The CAISO proposal for IR cost allocation, as explained to me following the May 10, 2023 posting of this presentation, appears to be workable and fair in most cases.

To the extent the cost allocation rules might need elaboration or modification to be workable and fair under some operating conditions, this could be addressed in the DAME Implementation Working Group(s), provided this is specified to be within the scope of the working group(s).