

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent	)	Docket No. ER23-2686-000
System Operator Corporation	)	
	)	
	)	

**COMMENTS OF THE  
ELECTRIC POWER SUPPLY ASSOCIATION**

Pursuant to the comment and intervention dates set out in the Commission’s August 24, 2023 Combined Notice of Filings,<sup>1</sup> the Electric Power Supply Association (“EPSA”)<sup>2</sup> hereby submits these comments on the California Independent System Operator’s (“CAISO”) Tariff Amendment filing<sup>3</sup> to implement its Day-Ahead Market Enhancements (“DAME”) and Extended Day-Ahead Market (“EDAM”) initiatives filed pursuant to section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d and Part 35 of the Commission’s regulations, 18, C.F.R. Part 35. The CAISO has requested a Commission order by December 21, 2023, in order to meet effective dates of December 21, 2023, and May 1, 2025, for different tariff revisions proposed.

This filing represents two separate significant sets of tariff revisions that are intended to be implemented together to enhance the CAISO’s current day-ahead

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<sup>1</sup> Federal Energy Regulatory Commission, *Combined Notice of Filings #1*, (Issued August 24, 2023).

<sup>2</sup> EPSA is the national trade association representing competitive power suppliers in the U.S. EPSA members provide reliable and competitively priced electricity from environmentally responsible facilities using a diverse mix of fuels and technologies. EPSA seeks to bring the benefits of competition to all power customers. This pleading represents the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue. EPSA submitted a doc-less intervention in the proceeding on August 29, 2023.

<sup>3</sup> California Independent System Operator Corporation, *Day-Ahead Market Enhancements and Extended Day-Ahead Market*, Docket No. ER23-2686-000, (August 22, 2023). (“CAISO DAME/EDAM Filing”)

market to address the evolving system by better aligning the day-ahead market with real-time conditions (DAME), and then expanding access to that improved day-ahead market by extending participation to other balancing authorities in the West (EDAM). In doing so, CAISO intends to implement both initiatives concurrently to allow for a more efficient single implementation for and by stakeholders, but highlights for the Commission that the two initiatives are severable such that the agency could approve DAME without approving EDAM, but cannot approve EDAM if it has not also approved DAME.<sup>4</sup> Similarly, there are six elements of DAME which are severable within that initiative, outlined in the filing.<sup>5</sup>

There are elements of each proposal which are important improvements to the ISO and broader region's day-ahead market functionality and are necessary as the energy mix evolves creating imbalances between day-ahead and real-time. Addressing those imbalances is necessary to better procure reliable capacity. However, there are also elements of each which are not improvements and in certain cases may adversely impact the operation of the ISO's competitive markets with products or mechanisms that are not valid, do not achieve the stated purpose of the tariff revisions, create inefficiencies and uncertainty for market participants, and thus adversely impact competitive outcomes and reliability.

There will be numerous comments in this proceeding specific to the details of both proposals. EPSA files these comments herein to highlight the need to address

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<sup>4</sup> CAISO DAME/EDAM Filing, p. 24, "The DAME tariff changes represent the foundation of needed improvements to the efficiency of the day-ahead market in the face of increasing system variability and uncertainty. The EDAM design is built on this foundation. In other words, the extended day-ahead market requires the enhancements to the day-ahead market. However, DAME is not dependent on EDAM."

<sup>5</sup> CAISO DAME/EDAM Filing, pp. 23-27.

energy market refinements to meet changing system conditions and resource mix with new or enhanced services and products that improve competitive market and reliability outcomes. It is critical that this objective is met, and where that is not achieved – or refinements create barriers or adverse market outcomes – the Commission should send parties back to the drawing table to develop viable, effective market reforms. EDAM and DAME are steps in the right direction but they are not quite where they need to be. So that the positive momentum around these market development proposals continues, EPSA recommends that the Commission either (i) accept the filing for both proposals in order to set them for hearing, or (ii) reject the filing and direct CAISO to re-file these two proposals separately so that each may move unencumbered by the other. EPSA believes that EDAM can move forward without DAME, if necessary, with appropriate reporting requirements for those elements of EDAM that currently fall short. Market participants should not be deprived of the benefits of this market expansion if it can be resolved on a faster timeline.

## **I. COMMENTS**

EPSA is the national trade association representing America's competitive power suppliers that provide electricity to consumers in every region of the country, including the seven centrally organized competitive wholesale electricity markets (Independent System Operators/"ISOs" and Regional Transmission Organizations/"RTOs"). EPSA advocates for well-functioning competitive wholesale electricity markets as the best foundation to reliably power our nation at the lowest cost while fostering the innovation necessary to achieve critical environmental progress.

As CAISO explains in its filing, there are numerous factors driving changes to the existing electricity system and those changes bring with them an increasing need to develop market enhancements which maintain the competitive wholesale market structure, improve the reliable operations of the system, and ensure the market sends sufficient signals for investment in both new and existing resources needed to support a more dynamic future grid. When one considers the additional pressures exerted on the electricity market by state and federal policies imposed to achieve goals that are different from the objectives of the markets when they were initiated, it is imperative that these new market reforms *improve* competition and market objectives, not *degrade* these outcomes. To be sure, a competitive electricity market structure remains the appropriate system design to deliver the economic and reliability benefits needed by consumers without consumers bearing the investment risks. Market adaptations should utilize and incent market-based approaches to changing system needs to the greatest extent possible.

In this light, the CAISO's goals for the DAME and EDAM proposals are appropriate and necessary. In particular, mechanisms to extend the ISO's day-ahead market framework to additional balancing areas in the Western Energy Imbalance Market ("WEIM"), like those in EDAM, provide access to a more diverse and expansive regional mix of resources thereby improving regional coordination and extending reliability, economic, and environmental benefits to a broader set of consumers. These resources are accessed on a broader and more efficient basis as EDAM will optimize unreserved or unscheduled transmission capacity and dispatch a more efficient combination of generation, energy transfers, and capacity transfers to satisfy forecasted

demand across the entire EDAM market. This is an important and needed market extension which will improve regional reliability at a time when system reliability is being stressed due to a number of factors.<sup>6</sup>

Similarly, the ISO's day-ahead market does require enhancements to address increased net load uncertainty and variability between day-ahead and real-time, as reported to the Commission in comments from CAISO submitted<sup>7</sup> to follow up on a series of technical conferences addressing *Modernizing Wholesale Electricity Market Design*.<sup>8</sup> In those comments and the subsequent report<sup>9</sup> submitted in the same

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<sup>6</sup> *Testimony of James B. Robb, President and Chief Executive Office, North American Electric Reliability Corporation*, Before the Committee on Energy and Natural Resources of the U.S. Senate, "The Reliability and Resiliency of Electric Service in the United States in Light of Recent Reliability Assessments and Alerts," Washington, DC (June 1, 2023). Mr. Robb's remarks highlight the numerous factors leading to an inflection point for the bulk power system. Those factors include "(1) Rapid, often disorderly transformation of the generation resource base; (2) Performance issues associated with replacement resources as conventional units retire; (3) Wide-area, long duration extreme weather events, which are becoming more frequent; (4) And increased demand due to electrification, coupled with slow development of new energy infrastructure needed to support grid resilience and the clean energy future.": Testimony available here: <https://www.nerc.com/news/Pages/Robb-to-Testify-.aspx>

See also, *FERC Seeks Information on Organized Markets Changing System Needs, Plans*, FERC News Release, Docket No. AD21-10-000, (April 21, 2022), "The Commission received comments on the potential challenges associated with "one size fits all" solutions and is gathering additional information from each market operator to better understand how their unique resource mixes and load profiles impact their respective system needs across all their markets and their respective plans to address those needs. Reports should comprehensively address current system needs given recent changes in resource mixes and load profiles; operator expectations regarding system needs over the next five years and ten years; whether and how each market operator plans to reform its markets to meet expected system needs."

<sup>7</sup> Comments of the California Independent System Operator Corporation, *Modernizing Electricity Market Design*, Docket No. AD21-10-000, (filed Feb 4, 2022), see pp. 1 – 2. "Over the last decade, the CAISO has experienced increased variability and uncertainty between its day-ahead and real-time markets...The CAISO currently accounts for net load uncertainty and real-time ramping needs in significant part through out-of-market actions."

<sup>8</sup> See generally *Modernizing Wholesale Electricity Market Design*, Docket No. AD21-10-000. In this docket, two technical conferences addressing the potential need for market reforms to ISO/RTO energy & ancillary services markets to address changing system needs were held in September and October 2021, a FERC Staff white paper was issued ("Energy and Ancillary Services Market Reforms to Address Changing System Needs," September 2021), and reports from ISOs/RTOs were directed by the Commission for submission in October 2022.

<sup>9</sup> Report of the California Independent System Operator Corporation, *Modernizing Wholesale Electricity Market Design*, Docket No. AD21-10-000, (filed October 18, 2022).

proceeding at the direction of the Commission,<sup>10</sup> CAISO walks through why day-ahead market enhancements and the development of new products to address its operational flexibility needs is required to replace out-of-market actions and reliance on the less flexible Residual Unit Commitment reliability process.<sup>11</sup>

That noted, it is critical that the details of the market enhancements and extension achieve the needed goals for the evolving CAISO and WEIM systems. EPSC has concerns that aspects of DAME, for instance, may in fact lead to anti-competitive results by incenting resources to self-schedule or to fail to offer needed services due to overly low offer caps. These flaws could very well undermine the market by creating poor price formation results leading to poor support for reliability.

For instance, the flexibility provided to the ISO to “finetune elements of imbalance reserves procurement based on its review of system and market performance”<sup>12</sup> provides an inordinate and unreasonable level of discretion for CAISO to change market inputs. By changing parameters and inputs, the pricing design will change, which can be expected to create disincentives for market participants. As a fundamental principle, market rules which provide this level of discretion – which is in fact undue discretion as provided by the DAME revisions – do not offer the certainty to resources offering energy

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<sup>10</sup> Order Directing Reports, *Modernizing Wholesale Electricity Market Design*, Docket No. AD21-10-000, (issued April 21, 2022).

<sup>11</sup> See also, FERC Staff Paper: “Energy and Ancillary Services Market Reforms to Address Changing System Needs,” Docket No. AD21-10-000, (September 2021). “RTO/ISO reports and filings to the Commission indicate that RTO/ISO operators have increasingly had to rely on out-of-market operator actions to address the limitations of conventional RTO/ISO market design and manage the increase in net load variability due to insufficient levels of operational flexibility. These out-of-market actions include such measures as manual commitments, posturing, or load biasing... Such out-of-market actions can undermine price formation in energy and ancillary service markets, which in turn can reduce incentives for investments in the flexible resource capabilities needed to manage operational uncertainty,” pp 11-12.

<sup>12</sup> CAISO DAME/EDAM Filing, p. 12.

needed and do not establish defensible competitive price signals, thus distorting market outcomes which can disincent energy offers needed temporally or locationally.

Additionally, functional market rules can rely on the imposition of offer caps and/or offer floors only where necessary to ensure a level of behavior discipline and protection against the exertion of market power. However, a cap must be reasonable and provide the appropriate price signals to suppliers to provide the needed services while recovering their costs. The proposed \$55 price cap on imbalance services in DAME is too restrictive (*i.e.*, low) and thus will be a disincentive to potential suppliers of the service. The analysis provided in the filing to support the cap is deficient as it relies on a correlation between spinning reserves and imbalance reserves which are not comparable products. Thus, the current DAME proposal is in fact contrary to the stated purpose of the proposed enhancements. The unreasonably low cap could have the perverse effect of undermining reliability by disincentivizing offers of the new product.

There may be a level of complexity in the DAME proposal that creates uncertainty and inefficiencies and runs counter to the first principles which render market rules just and reasonable. Where this is the case, it is incumbent on the Commission to ensure that new products, services, or mechanisms improve market operations, efficiency, and reliability. As EPSA has previously stated in numerous proceedings, it is the Commission's obligation to ensure that any reforms or enhancements to wholesale energy market designs continue to align incentives that achieve the optimal and lowest cost reliability outcomes. While CAISO's proposals take a step in that direction, a few adjustments are needed to some of the elements of each to gain sufficient confidence that the filing is just and reasonable. Thus, the Commission

may consider directing CAISO to file these two proposals separately rather than “somewhat severably” so that each can be assessed and improved as needed while moving forward toward approval and implementation.

## **II. CONCLUSION**

EPSA respectfully requests that the Commission consider the comments herein. Importantly, competitive wholesale market structures continue to be the most effective and efficient model to attract the necessary investment for new resources and for the operation of existing resources to deliver power to all consumers reliably and as affordably as possible. Thus, the Commission must ensure that needed market reforms and enhancements achieve these goals.

Respectfully submitted,

*/s/ Nancy E. Bagot*

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Dated: September 21, 2023



**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document via email on each person designated on the official service list compiled by the Secretary of the Federal Energy Regulatory Commission in this proceeding.

Dated at Washington, D.C., this 21<sup>st</sup> day of September, 2023.

/s/ Felicia Smith Freeman  
Felicia Smith Freeman