



Day-Ahead Ancillary Services (DASI)

IMM's Thoughts on Aspects of the Mitigation Design

Mike Redlinger

ECONOMIST

Jake Grindal

SUPERVISOR



Outline of Topics Covered

- Thoughts on the mitigation design for the Day-Ahead Ancillary Services Initiative (DASI)
 - IMM is supportive of the ISO's proposed conduct + impact framework for DA A/S mitigation
- Consultation on DA A/S reference levels
 - This is a topic the IMM is currently working through and we appreciate your thoughts and questions
- Consultation regarding DA A/S physical withholding
- Next Steps
 - The IMM plans to provide additional feedback and comments throughout the remainder of the stakeholder process
 - More details will be developed during the implementation phase of the project and specific mitigation training will be important and needed to assist participant readiness

Thoughts on the ISO's Proposed Mitigation Design

- A robust framework for addressing market power is a critical part of ensuring that DASI is successful in its goal to procure and transparently price the A/S needed for reliability
- Strong competition can be effective in disciplining suppliers and yielding competitive market outcomes. However, in times where there is insufficient competition, a well-designed mitigation framework is essential
- The ISO's overall DA A/S mitigation design strikes a balance
 - The proposed conduct and impact approach is intended to balance the risks of under-mitigation and over-mitigation
 - The conduct and impact test thresholds appear reasonable, but it will be important to monitor the appropriateness of the thresholds over time and make adjustments if necessary



Consultation is a key part of the Reference Level development process

- The default IMM Reference Level is our best estimate of a resource's competitive costs
- Reference Levels are transparent – inputs are known (e.g. fuel price sources, heat rates), and values are shared with participants in advance of the offer deadline
- If a participant's expected costs differ significantly from the IMM Reference Level and the Conduct Thresholds, there is a risk of mitigation and under-recovery of competitive costs
- Consultation with the IMM is important to limiting this risk and associated market and participant harm

Background: Existing Consultation Process for Energy Reference Levels

- Overview of reference level consultations
 - Reference levels can be updated upon request of a Market Participant or at the initiative of the IMM
 - Market participants must provide all cost data and information supporting a reference level change to the IMM
 - IMM will review all data and supporting material and consult with the participant as needed
- Two timelines for reference level consultation set out in the Tariff; recognizing that the timing of reference level input varies
 - **Up to D-2:** Slow-changing or based on an enduring methodology/model, require IMM assessment and are not typically urgent. Examples: heat rate curves, VOM, opportunity cost or risk model
 - **Up to D:** Time-sensitive inputs where adjustments are needed for reference levels to reflect prevailing market conditions. Most common example relates to expected natural gas prices exceeding the Fuel Price Adjustment (FPA) cap



Background: Existing Consultation Process for Energy Reference Levels (cont.)

- **Up to D-2:** Generally, consultation must be completed no later than 5pm of the second business day before the operating day.
 - Example: a reference level change to be in effect for operating day of May 11th must be completed no later than 5pm on May 9th
- **Up to D:** If an event occurs within the 24 hour period prior to the operating day that will cause the resource's operating cost to exceed one of the conduct tests
 - In these cases, for information to be considered for the DAM, the participant must contact the IMM at least 30 minutes prior to the DAM close
- In addition, Market Participants can make updates to certain inputs of reference levels through the bidding interface
 - FPAs and Fuel Blends for dual fuel generators
 - Automated processing by ISO software and subject to ex-post verification



Consultation on A/S Reference Levels

- A/S Reference Level Components
 - **Expected Closeout:** the expected charge when the RT LMP exceeds the strike price
 - **Fuel Component (Gas):** avoidable, fuel-related costs incurred as a result of clearing a DA A/S offer
 - **Fuel Component (Storage):** avoidable, “fuel”-related costs incurred as a result of clearing a DA A/S offer
 - See ISO’s [February 2023 MC presentation](#) for details on the A/S reference level components
- We recognize that participants may potentially want to consult with the IMM on any one of these components
 - We are actively thinking through how best to handle these consultations
 - We appreciate stakeholder thoughts and questions on this topic

Initial Thoughts on A/S Reference Level Consultations

- **Expected Closeout Component**
 - We are currently working through how to handle situations where a participant approaches the IMM with its own methodology or model for calculating the Expected Closeout
 - Any such consultations would need to be set up well in advance
 - Example: if a Market Participant were to approach the IMM on the morning of the DAM with a brand new model, this would clearly not provide the IMM sufficient time to undertake its review
- **Fuel Component**
 - We anticipate that much of the consultation on the fuel component will relate to FPAs
 - Generally, we expect that if a participant has an approved FPA for its DA energy offer, this FPA-approved fuel cost could be used in the calculation of its A/S fuel component
- We plan to conduct trainings as DASI implementation approaches and will be available to have more concrete discussions on the consultation process

Consultation on Physical Withholding

- If participants have questions or concerns regarding physical withholding, we encourage them to reach out and consult with the IMM on their specific circumstances
 - As noted in the [IMM's November 2022 memo](#), "Participants utilizing this consultation process should be able to explain why it is not in their economic interest to offer their resources and/or the circumstances under which the resource may be made available."
 - These consultations are valuable to the IMM and an opportunity for IMM to provide guidance or raise any initial concerns
- In these consultations, the IMM can provide some guidance based on the information presented, but cannot provide confirmation that the participant would never be referred for physical withholding (no exemptions)

Questions

