

Comments on Policy Initiatives Catalog and Roadmap Process 2024

Department of Market Monitoring

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Summary

DMM appreciates the opportunity to comment on the ISO's *Policy Initiatives Catalog and Roadmap Process 2024*¹. DMM recommends the ISO consider adding policy initiatives aimed at (1) improving ability for non-gas resources to submit reference level change requests, (2) more accurately reflecting intraday opportunity costs in the default energy bids of storage resources, and (3) changing the congestion revenue rights (CRR) auction to a market based on willing sellers. The policy suggestions to improve the reference level change request process, and to improve default energy bids for storage resources, could be included in the current price formation enhancements initiative. DMM also continues to recommend that the ISO develop revisions to bid cost recovery rules for battery storage resources. DMM understands that the ISO is assessing this issue internally, and will be considering potential market design changes as part of an upcoming initiative.

Improving reference level change request process for non-gas resources

When the \$2,000/MWh bid cap is in effect, internal resources must submit a reference level change request in order to submit energy bids over the \$1,000/MWh soft bid cap. The policy initiative that led to the implementation of the reference level change request process was primarily focused on gas resources being able to accurately reflect higher gas prices in their reference level costs.² While non-gas resources can also submit reference level change requests, there is less guidance for these types of resources. Therefore, there may be shortcomings in the current implementation that prevent non-gas resources from being able to successfully submit these requests, and thereby accurately reflect their costs in energy bids and default energy bids. DMM recommends the ISO open a policy initiative to consider improvements to the reference level change request process to ensure non-gas resources are able to submit requests to accurately reflect costs in default energy bids when the \$2,000/MWh bid cap is in effect.

This issue is particularly prevalent for non-gas resources that face intraday opportunity costs, which may exceed \$1,000/MWh on days when the \$2,000/MWh bid cap is in place. While this is an issue for battery resources, it may affect other types of resources as well – particularly some hydro resources with certain daily limitations. According to the CAISO tariff, hydro resources are unable to submit automated reference level change requests.³ DMM's understanding is that they could submit a manual reference level change request, but there may not be clear guidance on what documentation is needed, or how the ISO would validate these requests.

¹ <https://stakeholdercenter.caiso.com/RecurringStakeholderProcesses/Annual-policy-initiatives-roadmap-process-2024>

² <https://stakeholdercenter.caiso.com/StakeholderInitiatives/Commitment-costs-and-default-energy-bid-enhancements>

³ Tariff Section 30.11.3.1.

Default energy bids for storage resources that reflect intraday opportunity costs

During the price formation enhancements working group meeting on January 24, 2024, the ISO highlighted the current inability of energy storage resources to submit reference level change requests.⁴ As noted in the previous recommendation, DMM believes that non-gas resources should be able to submit reference level change requests that reflect higher intraday opportunity costs on days when the \$2000/MWh bid cap is in effect. Intraday opportunity costs faced by storage resources can vary by hour, depending upon state of charge and future charging and discharging opportunities. Therefore, DMM also recommends the ISO consider a policy enhancement to allow storage default energy bids (DEBs) to vary by hour. This would allow the DEBs to accurately reflect hourly changing intraday opportunity costs, while continuing to mitigate local market power in hours of lower opportunity cost.

Allowing reference level change requests for storage resources to account for intraday opportunity costs would require careful policy development. However, pairing this policy change with a DEB that varies hourly would support more efficient dispatch of storage resources. This policy change may be especially beneficial on the highest load days, when peak demand hour prices may be the highest. It would also improve reliability by decreasing the probability of early dispatch of storage resource before hours of highest need, as well as improve price formation by allowing storage resources to set prices that appropriately reflect their opportunity costs. While an hourly DEB that reflects intraday opportunity costs may be most relevant for battery resources, this hourly design could potentially benefit other resources in some circumstances.

Changing congestion revenue rights auction to a market based on willing sellers

Transmission ratepayers continue to lose money under the current congestion revenue right (CRR) auction design. In the five years since the ISO implemented CRR reforms aimed at reducing these losses in 2019, ratepayers have lost \$312 million (or an average of \$62 million per year) and have received only 67 cents in auction revenues per dollar paid out.⁵ In 2023, transmission ratepayers lost about \$58 million from CRRs auctioned off by the ISO, receiving 76 cents in auction revenue per dollar paid out.

Under the current CRR market design, the ISO uses a transmission model that creates large amounts of price taking CRR supply which transmission ratepayers are obligated to back. DMM continues to recommend that the ISO stop offering CRR positions on behalf of transmission ratepayers at \$0 offer prices. DMM recommends that the ISO open a policy initiative to alter the CRR auction design so that trades only take place between willing sellers bidding into a market for these financial contracts.⁶

⁴ *Price Formation Enhancements Working Group Session #13:*

<https://www.caiso.com/InitiativeDocuments/Presentation-Price-Formation-Enhancements-Jan24-2024.pdf>

⁵ See *2022 Annual Report on Market Issues and Performance*, July 11, 2023. pp. 18, 183-190.

<https://www.caiso.com/Documents/2022-Annual-Report-on-Market-Issues-and-Performance-Jul-11-2023.pdf>

⁶ *Ibid*, p. 190.

Bid Cost Recovery for Battery Storage

As noted in DMM's 2022 Annual Report, DMM continues to recommend that the ISO develop revisions to bid cost recovery rules for battery storage resources.⁷ These new BCR rules are needed to mitigate potential gaming opportunities, and improve the efficiency of market dispatch when day-ahead state of charge values deviate significantly from actual state of charge values in real-time. DMM understands that the ISO is assessing this issue internally, and will be considering potential market design changes as part of an upcoming initiative.

⁷ Ibid, p. 26.