

Comments on RDRR Bidding Enhancements Issue Paper/Straw Proposal

Department of Market Monitoring

November 12, 2021

Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *RDRR Bidding Enhancements Issue Paper/Straw Proposal*.¹ In this policy, the ISO proposes changes to bidding rules for reliability demand response resources (RDRR) when the ISO's hard bid cap is increased to \$2,000/MWh. The ISO will also explore allowing RDRR to submit commitment costs and will consider modifying the 50 MW size cap on RDRR resources under the discrete dispatch option.

Comments

DMM suggests that the ISO consider allowing RDRR to bid between the current bid floor (\$950/MWh) and the hard bid cap \$2,000/MWh when conditions arise to increase the hard bid cap to \$2,000/MWh, instead of requiring RDRR to bid at least \$1,900/MWh under these conditions.

DMM understands that there is an issue where RDRR cannot submit bids above \$1,000/MWh when the energy bid cap is raised to \$2,000/MWh. However, instead of forcing RDRR to offer at a higher floor (at least \$1,900/MWh) when the energy bid cap is raised to \$2,000/MWh, DMM suggests that the ISO allow RDRR to bid between the current bid floor (\$950/MWh) and the hard bid cap under these conditions.

DMM is concerned that a much higher \$1,900/MWh bid floor may not accurately reflect RDRR program costs. If some RDRR program costs are lower than \$1,900/MWh, then the ISO should not require that resources bid above costs. The ISO should ensure that this policy will continue to allow RDRR resources to accurately reflect their costs.

The ISO cites potential suppression of real-time prices as a reason for requiring RDRR to bid at a higher bid floor when the hard bid cap rises to \$2,000/MWh. The ISO implemented market changes this summer which would allow RDRR to set prices more often in the real-time market.² DMM expects that under the ISO's proposal, prices would in fact be set at

¹ *RDRR Bidding Enhancements Issue Paper/Straw Proposal*, California ISO, October 29, 2021: <http://www.caiso.com/InitiativeDocuments/Issue-Paper-and-Straw-Proposal-Reliability-Demand-Response-Resource-Bidding-Enhancements.pdf>

² *Market Enhancements for Summer Readiness Revised Final Proposal*, California ISO, April 14, 2021, p. 35: <http://www.caiso.com/InitiativeDocuments/Addendum-DraftFinalProposal-MarketEnhancements-Summer2021Readiness-Export-Load-WheelingPriorities.pdf>

\$1,900/MWh or greater more frequently if RDRR is dispatched and is required to offer \$1,900/MWh or greater under specific conditions. However, more frequent \$1,900/MWh+ prices is not a more efficient outcome if those prices are not representative of underlying resources' marginal costs.

DMM supports further consideration of the proposal to allow RDRR to submit commitment costs. Under this proposal, the ISO should also ensure that it would have processes in place to assess the reasonableness of commitment cost submissions.

DMM supports the ISO seeking feedback from RDRR operators about what might comprise valid RDRR minimum load costs. While DMM supports further consideration of the proposal to allow RDRR to submit commitment costs, the ISO should also ensure it would have processes in place to validate the reasonableness of resource commitment cost submissions.

Proxy demand response (PDR) resources currently have the ability to submit minimum load and start-up costs, which suggests that these options could be made available for RDRR resources as well. However, last summer, DMM found that some proxy demand response resources were submitting very high commitment costs for the amount of capacity offered and recommended that the ISO develop guidelines for demand response commitment cost submissions.³ DMM understands that the ISO is working on providing additional guidelines for PDR commitment costs and suggests that the ISO could consider similar guidelines for RDRR resources.

DMM suggests that the ISO consider potential detrimental impacts from increasing the size cap for discrete RDRR. DMM also asks that the ISO provide additional information on the magnitude of issues described under this part of the proposal.

Starting August 2021, the ISO allows 15-minute dispatchable discrete RDRR resources to set marginal energy prices in the 15-minute market, and allows 5-minute dispatchable discrete RDRR to set 5-minute market prices. The ISO effectuates these outcomes by reflecting these resources as discrete in the scheduling run, but treating them as continuous in the pricing run.⁴ Historically, when called, RDRR has typically been manually dispatched by the ISO during system emergencies rendering most RDRR ineligible to set market prices. However the ISO has indicated that it intends to facilitate more economic dispatch of RDRR resources in the future.⁵

Increasing the 50 MW cap on discrete RDRR will exacerbate the detrimental impacts that allowing discrete resources to set price has on incentives for other, continuous resources to follow ISO dispatch. DMM recommends that the ISO and stakeholders consider these impacts before deciding to increase the 50 MW cap.

³ Report on demand response issues and performance, DMM, February 25, 2021, p. 4:

<http://www.caiso.com/Documents/ReportonDemandResponseIssuesandPerformance-Feb252021.pdf>

⁴ Market Enhancements for Summer 2021 Readiness Final Proposal, California ISO, March 19, 2021, p. 33:

<http://www.caiso.com/InitiativeDocuments/FinalProposal-MarketEnhancements-Summer2021Readiness.pdf>

⁵ Ibid.

When a discrete resource sets prices in the pricing run, it will generally set a higher price than the price that the final, most expensive continuous resource dispatched in the scheduling run would have set. In this situation, those final continuous resources in the bid stack will be dispatched to a point on their bid curve where their bid cost is less than the price set by the discrete resource. These final continuous resources in the bid stack, whose costs are less than the price they could receive from the market, have the incentive to deviate up from the ISO's dispatch. This could have adverse reliability impacts.

However, the MW quantity of continuous resources that have this incentive to deviate up due to the discrete-resource pricing should generally be capped by the size of the discrete resource. Therefore, raising the 50 MW cap on discrete RDRR could increase the detrimental side effects of discrete-resource pricing.

To help the ISO weigh these detrimental impacts against the benefits some stakeholders may get from the ISO raising the 50 MW cap, DMM asks that the ISO and market participants provide additional details about the issues that scheduling coordinators (SCs) face today in splitting RDRR resources into multiple discrete resources, sized 50 MW or less. DMM seeks clarity on what barriers SCs face such that RDRR resources (which DMM understands are often comprised of multiple retail accounts) cannot be parsed into smaller resources that would continue to be limited by the 50 MW discrete cap. Providing details on the magnitude of this issue could also be helpful.

DMM also asks that the ISO provide background on why discrete RDRR resources cannot participate economically in the day-ahead market today. The ISO mentions that RDRR resources which are actually discrete resources may choose to be modeled as continuous in order to bid economically in the day-ahead market.⁶ Since it is not appropriate for resources to represent their resource characteristics as being different than the resources' actual operating characteristics, DMM recommends that the ISO work on resolving this issue in this stakeholder initiative. The constraint in this scenario appears to be a rule disallowing discrete RDRR from participating in the day-ahead market. DMM asks that the ISO provide further background on this restriction to help inform further feedback on this aspect of the proposed policy.

⁶ *RDRR Bidding Enhancements Issue Paper/Straw Proposal*, California ISO, October 29, 2021, p. 7:
<http://www.caiso.com/InitiativeDocuments/Issue-Paper-and-Straw-Proposal-Reliability-Demand-Response-Resource-Bidding-Enhancements.pdf>