

Comments on Market Enhancements for Summer 2021 Readiness January 6, 2021 Stakeholder Call

Department of Market Monitoring
January 14, 2021

Summary

DMM appreciates the opportunity to comment on the ISO's Stakeholder call regarding *Market Enhancements for Summer 2021 Readiness*.¹ DMM supports the ISO reprioritizing this Summer Readiness initiative ahead of other ongoing stakeholder initiatives.

DMM believes the most important issue to address before the summer of 2021 is export and load priorities. The two other most important issues that can and should be addressed before this summer are demand response and storage resource dispatch. DMM recommends that the ISO proceed cautiously with potential changes to scarcity pricing as scarcity pricing is a complex policy issue. A poorly designed proposal that does not consider the broad implications on other aspects of the market design could do more to create scarcity conditions than to prevent them. More detail on these and other aspects of the presentation on the scope of the initiative are provided below.

Export and load priorities

As noted in the DMM's report on the August and September 2020 heat wave, there were "...relatively large volumes of exports in the day-ahead market that were not backed by imports being wheeled through or contracts with capacity within the CAISO." These exports that were not backed by contracted capacity were prioritized over CAISO load in the real-time markets and operations. "These export schedules were not subsequently curtailed in real-time during hours when the CAISO [load] was curtailed."²

Aside from the obvious recommendations related to resource adequacy reforms and procurement, DMM's main recommendation in its report was "that further changes and clarifications in the rules and processes for limiting or curtailing exports be discussed and pursued by the CAISO in conjunction with other balancing areas."³ DMM strongly supports the ISO's commitment to work with balancing areas in the west to enhance key aspects of CAISO's market design related to export prioritization before summer 2021. The market design should be consistent with the export policies of other balancing areas in the west whose load and

¹ *Market Enhancements for Summer 2021 Readiness*, California ISO, January 6, 2021:

<http://www.caiso.com/InitiativeDocuments/Presentation-MarketEnhancements-Summer2021Readiness-Jan6-2021.pdf>

² *Report on system and market conditions, issues and performance: August and September 2020*, p2, California ISO Department of Market Monitoring, November, 24 2020:

<http://www.caiso.com/Documents/ReportonMarketConditionsIssuesandPerformanceAugustandSeptember2020-Nov242020.pdf>

³ *DMM Report on summer 2020 conditions*, p. 4.

generation may want to trade with CAISO, and it should ensure that exports to balancing areas that may be short on capacity cannot cause a reliability emergency in the CAISO balancing area.

Reliability demand response resource (RDRR) dispatch and real-time price impacts

On high load days in August and September, 2020, the ISO did not dispatch a portion of the proxy demand response (PDR) resource adequacy fleet that was made available in the day-ahead timeframe.⁴ In addition to reviewing RDRR dispatch and pricing, DMM recommends that the ISO review in-market and out-of-market PDR dispatch processes to help ensure that all potential demand response is dispatched before shedding load going forward.

Requirements for storage resources during tight system conditions

DMM strongly supports the ISO reviewing, revising, and preparing for operational practices that will help to ensure storage resources are charged during hours before potentially critically stressed system conditions and that they are discharged efficiently during the critical hours of this summer.

Bid cost recovery for hourly block imports during tight system conditions

The ISO currently schedules hourly block imports in an hour ahead process but settles them on prices from separate fifteen-minute markets. Creating a full hour-ahead market that settled all load and generation resources before the fifteen-minute market would resolve discrepancies between cleared bids and settlement prices. In the absence of a full hour-ahead market, there is always the possibility imports will be settled on prices below their offer prices. DMM understands that in the tightest system conditions, the current practice of not offering bid cost recovery to hourly-block imports could sometimes discourage non-resource adequacy imports from offering incremental imports into CAISO's real-time markets.

DMM notes that this concern does not warrant market design changes during the roughly 99.9% of hours when CAISO's resource adequacy capacity should be sufficient to meet CAISO load and reserve requirements. Given the events of August 2020, DMM understands that there are legitimate concerns about there not being sufficient resource adequacy capacity with must offer obligations during the summer of 2021. Therefore, there could be value in discussing potential options for providing bid cost recovery or pay-as-bid options for non-resource adequacy hourly block imports during the very limited number of hours when the contracted resource adequacy fleet may not be sufficient to meet CAISO load and reserve requirements.

If such a carefully designed mechanism to incent non-resource adequacy hourly block imports to participate in these limited number of hours can be designed and implemented, it should also eliminate the pressure to implement a hastily designed, incomplete, and therefore potentially detrimental, scarcity pricing mechanism for the summer of 2021.

Short term scarcity price enhancements

DMM recommends that the ISO proceed cautiously with potential changes to scarcity pricing as scarcity pricing is a complex policy issue. A poorly designed proposal that does not consider

⁴ *DMM Report on summer 2020 conditions*, pp. 56-60.

the broad implications on other aspects of the market design could do more to create scarcity conditions than to prevent them. In particular, during tight system conditions, many entities become pivotal suppliers at a system level. A poorly designed scarcity pricing mechanism that significantly increased prices over prices set by marginal bids in these situations could incent these entities to physically withhold supply. Therefore, the scarcity pricing mechanism could serve to create the scarcity situations that the ISO intends for it to help prevent. While discussions of options may not by themselves be detrimental to the market, DMM encourages the ISO to not allow the development of a scarcity pricing mechanism to get in the way of other important potential enhancements to summer 2021 reliability.

EIM coordination and resource sufficiency test review

As discussed above, one of DMM's main recommendations in its report on summer 2020 conditions was for western balancing areas to coordinate on how to prioritize transfers between areas during tight conditions. Therefore, DMM strongly supports the ISO holding workshops and engaging in other forms of collaboration with EIM entities to enhance coordination with EIM entities and other areas in the west during emergency conditions.

DMM recognizes that the EIM resource sufficiency tests have been designed to incorporate compromises that address many complex, competing priorities. DMM supports the ISO and stakeholders exploring changes to the design that could better disincent balancing areas from leaning on each other while still enabling the efficiency of inter-balancing area trades. DMM encourages the ISO to carefully consider the detrimental impacts that new proposals may have in one area along with the potential benefits in another area. It may be very difficult to complete a carefully considered redesign of these sufficiency tests that are free from unintended adverse consequences for the summer of 2021.

Other topics to include in scope: Include hours ending 17-21 on weekends and holidays in the availability assessment hours.

One of the two days in which CAISO shed load in 2020 was a Saturday. Currently, the ISO's main incentive mechanism for resource adequacy resources to be available, RAIM, does not penalize resources for not being available during the peak net load hours on weekends and holidays. DMM believes a straightforward market design enhancement that could be implemented before summer 2021 that could significantly increase incentives for resources to be available during potential tight system conditions is to add hours ending 17-21 on weekends and holidays to the availability assessment hours used in calculating the RAIM penalties.