Decision on rules for bidding above the soft offer cap

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Background

• FERC Order No. 831 established a new offer cap structure for ISO/RTOs. It allowed resources to submit offers above $1,000/MWh, and offers up to $2,000/MWh to set prices, so long as the costs underlying those offers are verified.

• While these provisions apply to all resource types, Order No. 831 and the ISO’s cost verification process did not specifically contemplate how to verify the costs of resources with a limited amount of energy, for which the cost of producing in a given hour may be the revenues foregone from not producing in a future hour.
• Initiative launched in response to stakeholder concerns about storage and hydro resources reflecting intra-day opportunity costs

• Management proposes modifying market rules for resources bidding above $1,000/MWh soft offer cap

• Proposed changes aim to improve market efficiency and reliability, such that the energy is available from resources when it is most needed.

• Stakeholders broadly support the initiative with some points of divergence
Identified Issues

1. Resources with intra-day opportunity costs struggle to preserve limited energy for highest price hours.

2. These resources may not be able to maintain day-ahead market schedules when real-time prices exceed the soft offer cap.
Proposed Changes

1. Remove the $1,000/MWh cap on default energy bids (DEBs) for all resources in both the day-ahead and real-time market.
   • Allows resources to bid up to marginal costs, even if above $1,000/MWh
   • Particularly relevant for resources using Hydro DEB

2. Modify real-time bid cap for energy storage resources to provide additional bidding flexibility
   • Allow bidding up to higher of 4th-highest hourly maximum import bid price value and highest cost-verified bid, when either value rises above $1,000/MWh
Stakeholder Engagement

• Expedited stakeholder process, based on overall support to move quickly, through five working group meetings and opportunities for written comments

• Broad agreement on suboptimal dispatch issue

• Most stakeholders support pursuing a solution for summer 2024

• Key points of divergence: speed of initiative, day-ahead vs real-time applicability, approach for representing opportunity costs

• Management assessed feasibility and proposed balanced policy considering stakeholder input and implementation constraints
Future Work

• ISO will continue collaborating with stakeholders on further enhancements and monitoring impact of today’s proposal.

• Near-term related but independent work items: maximum import bid price calculation, storage bid cost recovery

• Long-term improvements identified in the stakeholder initiative: reference level change request process, default energy bid calculations, opportunity costs for demand response resources
Conclusion

- Management recommends approval of proposed modifications
- Changes are critical for improving market efficiency and optimal dispatch during tight conditions
- Implementing for summer 2024 is crucial to address stakeholder concerns
- Proposal balances need for timely improvements against feasibility and stakeholder input
- Approval is an important step in evolving market design for transforming grid