

# Comments on RDRR Bidding Enhancements – Track 1 Draft Final Proposal

Department of Market Monitoring

February 17, 2022

## Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *RDRR Bidding Enhancements – Track 1 Draft Final Proposal*.<sup>1</sup> The CAISO is proposing that reliability demand response resources (RDRRs) must bid at least 95 percent of the hard energy bid cap (\$1,900/MWh) when the bid cap is raised to \$2,000/MWh. DMM understands that the CAISO’s proposal is designed to create parity with current real-time RDRR bidding rules requiring RDRRs to bid at least \$950/MWh (which is 95 percent of the \$1,000/MWh bid cap). However, in prior comments, DMM has suggested that allowing RDRRs to bid below \$1,900/MWh in real-time when the \$2,000/MWh hard bid cap is in effect may lead to more efficient market outcomes in emergency situations.

In the Draft Final Proposal, the CAISO responded to DMM’s recommendation by stating that the draft proposal “maintains the design of RDRRs in the market as intended, consistent with the terms of the CPUC settlement and compliant with FERC Order No. 831.”<sup>2</sup> If the CPUC settlement specified that real-time RDRR bids must be greater than 95 percent of the bid cap, then DMM would not object to the CAISO’s proposal and would instead direct its arguments about the inefficiency of such a requirement to the CPUC. However, DMM has reviewed the settlement language that we could find, and we have not found language that indicates that the settlement requires real-time RDRR bids to be greater than 95 percent of the bid cap. DMM requests that the CAISO clarify why it believes the CPUC settlement requires real-time RDRR bids to be greater than 95 percent of the \$2,000/MWh bid cap, and consider the potential inefficiency of such a requirement as described in these comments.

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<sup>1</sup> *RDRR Bidding Enhancements – Track 1 Draft Final Proposal*, California ISO, January 26, 2022: <http://www.caiso.com/InitiativeDocuments/DraftFinalProposal-ReliabilityDemandResponseResourceBiddingEnhancements-Track%201.pdf>

<sup>2</sup> CAISO Draft Final Proposal, p. 6.

## Comments

### I. **Aligning RDRR bidding rules with real-time price conditions consistent with FERC Order No. 831**

#### ***Allowing RDRRs to reflect costs below \$1,900/MWh when the hard bid cap is in effect may facilitate more efficient market outcomes***

In this policy, the CAISO proposes that RDRRs must bid at least 95 percent of the hard energy bid cap (\$1,900/MWh) when the conditions are satisfied to raise the bid cap to the \$2,000/MWh hard cap. CAISO proposes to calculate the real-time bid for RDRRs as a percentage of the \$1,000/MWh soft bid cap, and automatically scale up the real-time bid of RDRRs when the \$2,000/MWh hard bid cap is activated. DMM understands that the basis of this policy is to maintain parity with the current real-time bidding floor for RDRRs when the \$2,000/MWh hard cap is triggered.

DMM understands that RDRRs have historically not had real-time bids based on a calculation of marginal cost. However, DMM believes that the CAISO could facilitate more efficient market outcomes by making one revision to the proposal. The CAISO could still automatically adjust real-time bids as proposed when the hard cap is in effect. However, instead of requiring that RDRRs use the bid as adjusted to at least 95 percent of the hard bid cap, the CAISO could allow a lower bid between \$1,000 and \$1,900/MWh if such a value more accurately reflects cost. RDRRs would continue to be accessible to the market only in emergency conditions, consistent with the CPUC settlement establishing RDRRs. Allowing bids lower than \$1,900/MWh when the \$2,000/MWh hard cap is triggered would not leave RDRRs susceptible to dispatch outside of emergency conditions.

#### ***The CAISO should carefully consider the future implication of continuing to position RDRR resources near bid caps or scarcity pricing levels as these levels may continue to evolve***

RDRRs represent resource adequacy (RA) capacity procured to meet the needs of CAISO load. Current market design requires that RDRRs have an administrative \$950/MWh price floor in real-time that positions them near the top of the real-time bid stack. However, RDRRs are only accessible in emergency situations independent of this placement in the bid stack. As such, at some bid cap price level it would be appropriate to dispatch RA RDRR capacity that may have cost below 95 percent of the bid cap in order to mitigate the potential exercise of market power by other, potentially non-RA resources.

In addition, DMM notes that scarcity pricing levels to be established by CAISO's forthcoming scarcity pricing initiative are not yet known and may be significantly higher than \$2,000/MWh. While the current proposal is analogous to current market design, the CAISO should proceed with caution when establishing further precedent that RDRR bids will always be positioned near bid caps or scarcity pricing levels that have potential to be much higher in the future.

### ***Cost-based bids can drive efficient market outcomes while still allowing CAISO to meet demand in emergency conditions***

The CAISO has indicated that one driver of the current proposal is to avoid price suppression that may result from dispatch of RDRRs in emergency conditions. The CAISO has expressed concern that since RDRRs are only dispatched in emergency conditions, if they set a price less than \$1,900/MWh, available and needed import supply may not be adequately incentivized to offer into the CAISO market.

DMM appreciates that in the past, the use of exceptional dispatch for RDRRs has contributed to lower market clearing prices in emergency conditions. However, where RDRRs are able to be dispatched by the CAISO market optimization, DMM would view dispatch using cost-based bids as an efficient market outcome that should not prevent CAISO from meeting demand in emergency conditions.

Consider an example of an emergency condition where the last resource needed to meet demand is a fifteen-minute dispatchable RDRR dispatched on a cost-based bid of \$1,500/MWh. The resulting LMP would reflect the cost-based bid of the RDRR, producing an efficient market outcome while meeting demand. Prices are not artificially suppressed in this situation. If additional capacity was needed, and imports were available at a higher cost (e.g., \$1,750/MWh), those imports would still clear up to the needed quantity. If these imports are hourly blocks incrementally dispatched in HASP under emergency conditions, they would be guaranteed to recover at least their bid cost if the 15-minute prices on which they are settled are below their real-time bid cost.<sup>3</sup>

Under the CAISO's proposal, it appears that the example higher cost import would clear on the bid of \$1,750/MWh ahead of the RDRR. The import would again be eligible to recover at least its bid cost if dispatched in HASP in an emergency situation. If the RDRR was also needed, it would subsequently clear on a bid of at least \$1,900/MWh and would set price accordingly, if it was a fifteen-minute dispatchable RDRR. In both this and the previous example scenario, demand is met in the emergency situation and imports are able to at least recover their bid cost. However, the market outcome under the CAISO's current proposal may be less efficient as the higher prices result from RDRR acting as a form of scarcity pricing, rather than reflecting a cost-based bid.<sup>4</sup>

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<sup>3</sup> See *Market Enhancements for Summer 2021 Readiness – Final Proposal*, pg. 28, California ISO, March 19, 2021: <http://www.aiso.com/InitiativeDocuments/FinalProposal-MarketEnhancements-Summer2021Readiness.pdf>

<sup>4</sup> An hourly block RDRR could not set fifteen-minute market prices, regardless of the bid price CAISO uses for it. Allowing an hourly block RDRR to bid below \$1,900 in emergency situations could allow this more efficient resource to be dispatched before a higher cost hourly block import or other higher cost resource. In this situation, the RDRR would enter the fifteen-minute market bid stack as a price-taker, similar to an hourly block import. The price would be set by the last economic resource. Therefore, as with any hourly block resource, the fifteen-minute market price could be lower if an hourly block RDRR with a bid below \$1,900 receives an hourly schedule instead of a higher priced fifteen-minute dispatchable resource.