

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System
Operator Corporation**

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Docket No. ER22-1431-000

**MOTION TO INTERVENE AND COMMENTS
OF THE DEPARTMENT OF MARKET MONITORING
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. §§385.212, 385.214, the Department of Market Monitoring (“DMM”), acting in its capacity as the Independent Market Monitor for the California Independent System Operator Corporation (“CAISO”), submits this motion to intervene and comment in the above-captioned proceeding.

I. MOTION TO INTERVENE

DMM respectfully requests that the Commission afford due consideration to these comments and motion to intervene, and afford DMM full rights as a party to this proceeding. Pursuant to the Commission’s Order 719, the CAISO tariff states “DMM shall review existing and proposed market rules, tariff provisions, and market design elements and recommend proposed rule and tariff changes to the CAISO, the CAISO Governing Board, FERC staff, the California Public Utilities Commission, Market Participants, and other interested entities.”¹ As this proceeding involves CAISO tariff provisions that would affect the efficiency of CAISO markets, it implicates matters within DMM’s purview.

¹ CAISO Tariff Appendix P, Section 5.1.

II. SUMMARY

In this filing, the CAISO proposes tariff changes that would raise the real-time bid floor for Reliability Demand Response Resources (“RDRRs”) to 95 percent of the hard energy bid cap in the real-time market for hours when the CAISO accepts energy bids up to the \$2,000/MWh hard energy bid cap.²

DMM supports the CAISO’s proposal. When the bid cap is raised to \$2,000/MWh under extraordinary conditions, maintaining the \$950/MWh bid floor would likely be more problematic than requiring emergency demand response resources to bid at least \$1,900/MWh. However, the CAISO should carefully consider the future implications of continuing to position emergency demand response resources near bid caps or scarcity pricing levels if these levels are increased in the future.

Allowing emergency demand response resources to bid below \$1,900/MWh when their marginal cost is less than \$1,900/MWh could increase market efficiency. Therefore, DMM has recommended that in a future initiative the CAISO should more carefully consider allowing emergency demand response resources to bid less than \$1,900/MWh if this better reflects their marginal cost in emergency situations.

Finally, DMM supports the CAISO’s proposed tariff clarification that an accepted RDRR bid above the \$1,000/MWh soft energy bid cap cannot serve as the trigger to allow other resources to bid above the soft energy bid cap in the real-time market.

² *Tariff Amendment to Enhance Reliability Demand Response Resource Bidding in Real-Time Markets*, California Independent System Operator Corporation, Docket No. ER22-1431-000, (“Transmittal Letter”).

III. COMMENTS

DMM supports CAISO's proposal

DMM supports the CAISO's proposal to raise the real-time bid floor for RDRRs to 95 percent of the \$2,000/MWh hard energy bid cap in the real-time market for hours when the CAISO accepts energy bids up to \$2,000/MWh. DMM also supports the CAISO's proposal to implement this policy with an automatic bid adjustment when necessary after a bid cap change, as described in the Transmittal Letter.³

The current inability of RDRRs to submit real-time bids over the soft energy bid cap during periods when the higher hard energy bid cap is applicable may create risk in tight supply conditions. RDRRs could have bids locked at the current RDRR real-time bid floor of \$950/MWh, while other resources may have higher cost-based bids. This situation could lead to dispatch of RDRRs ahead of other available resources with higher bids, which may be inefficient and inconsistent with the intent of the RDRR product.

Under extreme conditions when other resources may have cost-based bids over \$1,000/MWh, forcing RDRRs to bid at \$1,900/MWh is likely to be less problematic than restricting RDRRs to bid in the \$950 to \$1,000/MWh range. However, allowing RDRRs to bid less than \$1,900/MWh when their marginal cost may be between \$1,000/MWh and the \$2,000/MWh bid cap could increase market efficiency.

³ See Transmittal Letter, Pg. 9: "The CAISO will base the automatic adjustment on the percentage of the RDRR bid floor originally submitted by the Scheduling Coordinator. For example, if the scheduling coordinator originally submitted an RDRR bid of \$970/MWh when the soft energy bid cap was effective, and the scheduling coordinator did not revise the bid after the CAISO allowed bidding to the hard cap, the CAISO's software would adjust the RDRR's bid for that real-time interval to \$1,940/MWh, maintaining the scheduling coordinator's bid at 97 percent of the RDRR bid floor."

CAISO should carefully consider the future implications of continuing to position emergency demand response resources near bid caps or scarcity pricing levels if these levels are increased.

RDRRs represent resource adequacy capacity procured to meet the needs of CAISO load. Current market design requires that these resources have an administrative price floor in real-time that positions them near the top of the real-time bid stack. However, the CAISO can only access these resources in real-time emergency situations, independent of this placement in the bid stack. This design was specifically adopted to significantly limit the frequency with which RDRR capacity is dispatched. To date, the RDRR design process has not included any information or analysis of the extent to which some RDRRs may have marginal costs below \$1,900/MWh (95 percent of the hard energy bid cap).

In the Transmittal Letter, the CAISO states that RDRRs are not true cost-based resources.⁴ DMM understands that under current CAISO market design, RDRRs do not submit cost-based bids in the real-time market. However, this is a distinct concept from having no cost that could be reflected in an energy bid. For example, RDRRs, like some other demand response resources, may be restricted to a limited number of program calls within a specified period of time. As such, these resources may have opportunity costs associated with market dispatch which could potentially be estimated and reflected in energy bids.

Forthcoming CAISO stakeholder initiatives may allow prices and bids significantly higher than the current \$2,000/MWh hard bid cap. At some level of bid cap or scarcity, pricing the opportunity cost of dispatching some emergency demand response is likely to

⁴ Transmittal Letter, Pg. 6

be less than 95 percent of that bid cap. Therefore, to mitigate the exercise of market power under extremely high bid caps, it would be appropriate to dispatch emergency demand response at some price level or range before dispatching other resources bidding at 95 percent of that cap.

DMM has recommended to the CAISO that in a future initiative, CAISO more carefully consider allowing emergency demand response resources to bid below 95 percent of the hard energy bid cap when costs exceed the soft energy bid cap but may be below the hard energy bid cap.

DMM supports the CAISO's proposed clarification that RDRR bids above the \$1,000/MWh soft energy bid cap cannot serve as the trigger to allow other resources to bid above \$1,000/MWh in the real-time market

The CAISO proposes to clarify in its tariff that a submitted and accepted RDRR bid exceeding the \$1,000/MWh soft energy bid cap cannot serve as the trigger to allow other resources to bid above the soft energy bid cap in the real-time market.

The CAISO describes a scenario in the Transmittal Letter where a cost-verified bid over \$1,000/MWh from a non-RDRR resource is accepted and raises the bid cap to \$2,000/MWh. In this scenario, an RDRR resource then submits a bid over \$1,000/MWh, which is accepted under the \$2,000/MWh hard cap, and the initial cost-verified bid that raised the real-time bid cap to \$2,000/MWh is later withdrawn.⁵ The CAISO's proposed tariff revision clarifies that in such a situation, or other situations where an RDRR bid exceeding \$1,000/MWh is accepted, the RDRR bid will not be sufficient to raise the bid cap for other resources to the \$2,000/MWh hard cap. DMM supports this clarification of the CAISO tariff.

⁵ See Transmittal Letter Pg. 11, footnote 46

IV. CONCLUSION

DMM respectfully requests that the Commission afford due consideration to these comments as it evaluates the proposed tariff provisions before it.

Respectfully submitted,

By: /s/ Adam Swadley

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Independent Market Monitor for the California
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Dated: April 12, 2022

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 12th day of April, 2022.

/s/ Jennifer Shirk
Jennifer Shirk