

Comments on Demand and Distributed Energy Market Integration

Department of Market Monitoring

March 28, 2025

Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Demand and Distributed Energy Market Integration Discussion Paper* and *Working Group* dated March 3, 2025.¹ In these comments, DMM adds to our previous comments from the ISO's Demand and Distributed Energy Market Integration (DDEMI) Working Group Meeting on February 5, 2025.² DMM includes additional comments on the issue of baseline methodologies, and cautions against adding new baseline methodologies unless necessary. DMM recommends improving the "control group" baseline methodology, but cautions against the proposed "prescriptive" baseline methodology.

Comments

DMM cautions against adding additional baseline methodologies unless necessary. Currently there are a large number of baseline methodologies available to demand response providers. Very few of these baseline methodologies are in use, and additional baseline methodologies can be prone to errors, miscalculations, and potential strategic gaming.

The existing baselines include a "control group" methodology. This methodology works by using like-for-like resources, and comparing the differences in demand when a resource is dispatched versus not to calculate the response. This approach is a commonly used and accepted technique in economic studies to measure treatment effects. However, as of September 2024, this approach has not been used by any resource.³

Pacific Gas and Electric has proposed improvements to the control group methodology, and DMM generally agrees improvements can be made to encourage use of this methodology.⁴ The proposal includes registration and methodological improvements that would improve the selection of the control group by including a larger pool of like-for-like resources, and refine the measurement of a demand response event for the resources that are scheduled.

¹ *Demand and Distributed Energy Market Integration Working Group Discussion Paper*, California ISO, March 3, 2025: <https://stakeholdercenter.caiso.com/InitiativeDocuments/Discussion-Paper-Demand-Distributed-Energy-Market-Integration-Mar-03-2025.pdf>

² *Comments on Demand and Distributed Energy Market Integration*, Department of Market Monitoring, February 21, 2025: <https://www.caiso.com/documents/dmm-comments-on-demand-and-distributed-energy-market-integration-feb-05-2025-working-group-feb-21-2025.pdf>

³ *Ibid.*

⁴ *Proposal to Revise Demand Response Control Group Settlement Methodology*, Pacific Gas and Electric, March 3, 2025: <https://stakeholdercenter.caiso.com/InitiativeDocuments/Presentation-PGE-Settlement-Methodology-Mar-03-2025.pdf>

One demand response provider (Leap) proposes a similar methodology to the control group methodology called a “prescriptive” baseline. This approach is currently used in a California Energy Commission program.⁵ The prescriptive baseline is conceptually similar to a control group, but uses a state average, and the baseline is set in advance of the operational two-years.

DMM cautions against this approach because it does not meet a like-for-like standard. Demand response resources are often contingent on ambient conditions, and a state average overlooks differences in time and space to generate a counterfactual to estimate demand response. As a result, DMM does not recommend implementing prescriptive baselines as they have been proposed, because they fail to incorporate nearly identical load patterns and conditions that are requisite in the control group methodology.

⁵ *Prescriptive Baselines in CAISO*, Leap, March 3, 2025:
<https://stakeholdercenter.caiso.com/InitiativeDocuments/Presentation-Leap-Prescriptive-Baselines-Mar-03-2025.pdf>