



Comments of the Western Energy Markets Body of State Regulators to the Western Energy Markets Governing Body on Track 1 of the Storage Bid Cost Recovery and Default Energy Bid Enhancements Initiative

The Western Energy Markets Body of State Regulators (BOSR) appreciates the opportunity to provide its comments on Track 1 of the California Independent System Operator's (CAISO's) Storage Bid Cost Recovery (BCR) and Default Energy Bid Enhancements Initiative (Initiative) to the Western Energy Markets Governing Body. The BOSR is a self-governing, independent body composed of one state regulatory utility commissioner from each state in which a load-serving regulated utility participates in the Western Energy Imbalance Market (WEIM), which includes the CAISO's real-time market. This includes the states of Arizona, California, Idaho, Montana, Nevada, New Mexico, Oregon, Texas, Utah, Washington, and Wyoming.¹ The BOSR also currently includes two liaisons representing consumer-owned utilities and one liaison representing federal power marketing administrations. One of the BOSR's responsibilities is to express a common position, when possible, in CAISO stakeholder processes or to the Western Energy Markets Governing Body on WEIM and Extended Day-Ahead Market (EDAM) issues.

The current BCR formula and rules that are applied to storage resources were developed with conventional resources in mind. Storage resources differ from conventional resources both in their relative lack of startup and commitment costs as well as in their energy-limited nature. The current way BCR is applied to storage resources does not sufficiently take these unique features of storage into account. In particular, the CAISO and the CAISO Department of Market Monitoring (DMM) note that the current application of BCR to storage resources allows them to recover buy-back and sell-back costs through real-time BCR payments when a resource is unable to meet its day-ahead schedule due to State of Charge (SOC) constraints. These scenarios include instances where SOC constraints are met as the result of real-time resource bidding behavior. In effect, real-time BCR currently shields storage resources from exposure to real-time prices when they cannot meet their day-ahead schedules. The BOSR agrees that this situation results in inefficient market outcomes and, through reducing the real-time incentive for storage resources

¹ A load serving entity from the state of South Dakota has recently stated their intent to join the WEIM. A commissioner from that state has been invited to participate in the BOSR.

to target dispatch during high-priced peak hours, threatens reliability. Moreover, while these unwarranted BCR payments do not provide efficiency or reliability benefits, they do present a cost that must be paid by load and ratepayers.² Each of these concerns is exacerbated by the gaming opportunities present in the current BCR formula, wherein storage resources can strategically use their real-time bids to ensure their day-ahead schedules are not met and maximize real-time BCR payments to generate profit. Given the planned expansion of the day-ahead market via EDAM along with the trend of increasing storage participation in the market, the costs to ratepayers across the Western Energy Markets generated by these unwarranted BCR payments may continue to increase.

The BOSR supports CAISO's commencement of Track 1 of the Initiative to begin addressing the concerns regarding storage BCR described above. The BOSR acknowledges that the scope of Track 1 has narrowed from refining the storage BCR rules to address each of the efficiency, reliability, and strategic bidding concerns to prioritizing the reduction of opportunities for real-time strategic bidding with an interim solution. The CAISO has described the modified real-time BCR formula and rules put forward in the Draft Final Proposal as the interim solution as a compromise between the status quo and the default elimination of all BCR for storage resources, as recommended by the DMM and the Market Surveillance Committee (MSC).³ While the BOSR agrees with the rationale of the recommendation from the DMM and MSC to start with the elimination of all BCR for storage resources and then consider cases where BCR payments may be warranted, such as for exceptional dispatch, compensation for losses due to mitigation-caused premature dispatch, and depletion due to mistaken short-term price forecasts in real-time dispatch, the BOSR recognizes the urgency in developing an immediate interim

² The costs generated by BCR payments are allocated to the balancing authority area to which the resource receiving the payments belongs.

³ *Revised Draft Final Proposal - Track 1 - Storage Bid Cost Recovery and Default Energy Bid Enhancements*, CAISO, October 10, 2024: <https://stakeholdercenter.caiso.com/InitiativeDocuments/Revised-Draft-Final-Proposal-Storage-Bid-Cost-Recovery-and-Default-Energy-Bids-Enhancements-Oct-10-2024.pdf>

Battery BCR Issues and Recommendations, Department of Market Monitoring, July 8, 2024: <https://stakeholdercenter.caiso.com/InitiativeDocuments/Presentation-Battery-Bid-Cost-Recovery-and-Recommendations-DMM-Jul-8-2024.pdf>

Storage Resource Bid Cost Recovery Rules, Market Surveillance Committee, July 30, 2024: <https://www.caiso.com/documents/presentation-storage-resource-bid-cost-recovery-msc-jul-30-2024.pdf>

solution to address strategic bidding concerns. If the CAISO moves forward with the interim solution, the BOSR supports the application of the modified real-time BCR formula to all intervals in the day. Applying the formula to all intervals would reduce opportunities for strategic bidding and partially address the inefficiency and reliability concerns generated by the status quo. Moreover, if the CAISO moves forward to resolve Track 1 with the interim solution, the BOSR strongly recommends the CAISO commence a holistic review of BCR for storage resources as soon as possible so that BCR rules are developed that are appropriate to storage resources and fully address the efficiency and reliability concerns inadvertently generated by the status quo.