



California ISO

WESTERN ENERGY IMBALANCE MARKET (WEIM)

Decision on rules for bidding above the soft offer cap

Becky Robinson

Director, Market Policy Development

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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.

Summary

- 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