



California ISO

WESTERN ENERGY MARKETS

Decision on Storage Bid Cost Recovery Enhancements

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Management has identified the need to modify the bid cost recovery rules for storage resources

- Today's bid cost recovery calculations create two concerns. Those calculations:
 - 1. Limit storage resources' exposure to real-time prices for deviating from day-ahead schedules**
 - 2. May incentivize strategic bidding by storage resources to inflate bid cost recovery payments**
- Unique attributes of storage resources mean that applying the same bid cost recovery rules results in unequal treatment relative to conventional resources

Background on bid cost recovery

- Resources receive bid cost recovery payments when market revenues do not cover the resource's bid costs, such as start-up, minimum load, and transition costs
- Bid cost recovery incentivizes resources to follow dispatch and bid efficiently by removing the resource's risk if the market operator's dispatch does not cover resource operating costs
- Bid cost recovery is calculated separately for the day-ahead and real-time markets

Management proposes updating the calculation of real-time bid cost recovery for storage resources

- Bid cost would be based on an alternative to the bid to eliminate the opportunity for strategic bidding to inflate bid cost recovery

For resources dispatched up, the alternative would be the minimum of the bid and the maximum of three alternatives:

For resources dispatched down, the alternative would be the maximum of the bid and the minimum of three alternatives:

1. Real-time default energy bid
2. Real-time market cleared price
3. Day-ahead market cleared price
(only applicable to resources with a day-ahead award)

- To remove the ability of storage resources' bids to inflate bid cost recovery payments, this calculation will apply to all intervals

Management's proposal was developed based on stakeholder recommendations

- Incorporated feedback from seven stakeholder meetings and five opportunities for written comment
- Broad stakeholder agreement that the status quo creates poor incentives
- Management's proposal pursues a modified version of a solution put forth by stakeholders
 - Stakeholders' proposal modifies the bid cost recovery calculation for storage resources only in some intervals, while Management's proposal applies in all intervals

Management recommends approval of the proposed changes to storage bid cost recovery

- Provides proportionate bid cost recovery payments to storage resources
- Feasible to develop policy in the near-term and resettle market for unwarranted bid cost recovery payments once effective
- Some stakeholders supported Management's proposal as a viable near-term compromise but noted other storage uplift issues remain unsolved
- Some stakeholders opposed Management's proposal noting its application across all intervals could be overly conservative
- Management has committed to further consider bid cost recovery for storage resources in the context of other storage market design elements