

Advice from the Western Energy Imbalance Market Body of State Regulators to the Western Energy Imbalance Market Governing Body on the Extended Day-Ahead Market Final Proposal and the Governance Review Committee's Phase Three EDAM Governance Final Proposal

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The Western Energy Imbalance Market Body of State Regulators (BOSR) appreciates the opportunity to provide advice to the Western Energy Imbalance Market Governing Body on the Extended Day-Ahead Market (EDAM) policy initiative and the Governance Review Committee's (GRC's) Phase Three EDAM Governance Final Proposal (Final Proposal).¹ The BOSR supports the overall EDAM market design set forth in the final proposal. Throughout the initiative, the BOSR has focused on two specific design components of the framework, the EDAM Resource Sufficiency Evaluation (RSE) and Transmission Availability, providing substantive comments at each opportunity. Additionally, the BOSR provided comments throughout the GRC's stakeholder process on the EDAM governance proposal. The following is a summary of BOSR's position on both initiatives:

- The BOSR generally supports the implementation of the EDAM RSE.
- The BOSR generally supports the proposed failure consequences of the EDAM RSE.
- The BOSR supports the proposed buckets framework and underlying pathways for transmission made available to the EDAM.
- The BOSR supports the proposed historical transmission revenue recovery mechanism for transmission provided to EDAM.
- The BOSR supports the GRC's proposed governance structure for the EDAM.

EDAM Resource Sufficiency Evaluation

The EDAM RSE is a foundational component for establishing a robust extended day-ahead market; it builds trust and confidence among participants with varying resource adequacy programs and reliability standards. The BOSR has long been a supporter of the RSE concept, both under the Western Energy Imbalance Market (WEIM) and EDAM. Based on the BOSR's participation in the development

¹ These comments are not intended to reflect any position or opinion as to other concurrent processes pending before CAISO, including but not limited to the Resource Sufficiency Evaluation Enhancements Phase 2 (RSEE), Day-Ahead-Market Enhancements (DAME), Transmission Service and Market Scheduling Priorities Phase 2 (TSMSP) and various pending tariff proposals.

of the WEIM RSE construct, the BOSR acknowledges the RSE will also play a critical role in EDAM, where Balancing Authorities (BAs) will participate with greater amounts of their resources and transmission. While the EDAM can be a step toward a Regional Transmission Organization (RTO)—with all participants operating under the same Resource Adequacy (RA) framework and other market standards—the EDAM should not be regarded as an RTO. To build trust and confidence in the extended day-ahead market, there needs to be a standard rule that all entities can agree upon before participating in the market. We strongly believe that the RSE fulfills this role. The RSE functions as a minimum qualification for a BA to reliably supply resources to meet its requirements without leaning on other participants' resources and related costs.

The BOSR contends that the EDAM RSE should achieve the following goals: 1) the entire EDAM footprint can be reliably operated. All participants should have sufficient resources prior to joining the EDAM and any insufficiency in one BA should be contained within that BA and not spread to the other BAs that do have sufficient supply; 2) all participants are treated equally and contribute a fair share of supply to the market. It is unacceptable for any BAs to participate in the market with insufficient resources to meet their requirement in the day-ahead time frame and the cost of procuring forward resources should not be transferred to other participants; 3) the mechanism should encourage participation in the EDAM by building trust among participants. With confidence in the market, more participants will be willing to participate in the EDAM.

RSE Failure Consequences

The BOSR generally supports the proposed three-tiered administrative surcharge for RSE failure consequences.² The BOSR contends that failure consequences should incentivize forward procurement, and therefore, preemptively discourage BAs from failing the test and leaning on other participants. There has been lengthy discussion around the right level and types of failure consequences both for the EDAM and the WEIM RSE. This issue is not only complex in its nature but also hard to reach consensus on. Although there are remaining concerns among stakeholders, and there is not full agreement on the right level and type of failure consequences, the BOSR supports the proposed three-tiered administrative surcharge for failure consequences. First, the BOSR supports the CAISO's proposal of employing financial, rather than physical, consequences for curing the insufficiency of the BA. The BOSR believes the financial consequences have merit when compared to the physical consequences currently conducted

² The administrative surcharge concept is not a unanimous consensus position within the BOSR; not all states agree that the bilateral market price, with or without a multiplier, is the appropriate benchmark for determining a financial penalty in the event a BAA fails to meet resource sufficiency requirements.

in the WEIM— where transfers into the failed BA are limited—by allowing the insufficient BA to utilize surplus supply in the market. The BOSR believes this option will encourage greater diversity benefits in the EDAM. Second, in previous comments submitted to the CAISO, the BOSR recommended that the penalty for failures should be costlier than what the BA can procure for the insufficiency in the bilateral market. Finally, the BOSR believes that the penalty should not be overly punitive to disincentivize market participation when the amount of insufficiency is negligible. By differentiating the amount of the penalty depending on the size of failures, the proposed three-tiered approach provides a reasonable range of penalties.

Pooled WEIM RSE³

The BOSR contends that a framework that allows for a collective RSE test in the real-time market among EDAM entities that passed the EDAM RSE in the real-time timeframe is reasonable because it will allow participants to enjoy diversity benefits of the market. Passing the EDAM RSE guarantees the participants' capabilities of meeting their own requirements in the day-ahead timeframe. While there is still the possibility that a BA can experience sudden changes in their supply, including unforced outages and variable energy resource (VER) fluctuations between the day-ahead and real-time market, these changes are largely covered by the newly developed Imbalance Reserve (IR) product. With the belief that all BAs in the pool have sufficient supply, proven by the EDAM RSE, the diversity of the footprint can be shared in the real-time market, which will effectively lead to reduced IR requirements in WEIM RSE.

Further Recommendations

As the CAISO continues to refine and implement the EDAM market design, the BOSR encourages the CAISO to address the following concerns:

- **For RSE failure consequences, revisit using the bilateral hub price for the penalty price.**

In their proposal, CAISO put forward an administrative surcharge for RSE failures based on the day-ahead bilateral market price. Under the current bilateral construct, a BA will buy hourly block products in

³ The BOSR does not take a position at this time on the proposal for the imbalance reserve and reliability capacity products presented through the DAME initiative. California believes that not all balancing authorities are similarly situated and the EDAM RSE should include mechanisms that account for such differences among balancing authorities that have comprehensive resource adequacy programs and/or other resource safety nets such as strategic reserve resources that are only operated under stressed system conditions. California continues to engage in discussions with CAISO to resolve how these resources are accounted for in the RSE test and when procuring imbalance reserves and reliability capacity.

the day-ahead bilateral market to procure supplies prior to the operating day. With sufficient liquidity and good price formation in the bilateral day-ahead market in the West, the bilateral price in the most active hub can be a reasonable reference for the penalty. However, as the EDAM matures and organized day-ahead markets advance in the West, the bilateral market may become less liquid, and transactions in the bilateral market will dry up. Accordingly, the bilateral hub price may no longer serve as a reasonable reference price for RSE failures. The BOSR recommends CAISO periodically assess day-ahead bilateral market liquidity and revisit the penalty price, if needed.

- **For the RSE failure consequences, revisit the thresholds of multipliers to the administrative surcharge.**

In the final proposal, CAISO proposes applying different multipliers to the administrative surcharge depending on the size of the insufficiency. The threshold is based on the percentage of the Imbalance Reserve (IR) requirements a BA can cover. Since the IR product is a new product in the day-ahead market, it is unclear how it will function in the extended day-ahead market, alongside the RSE test. As the CAISO gains experience operating the product, it should monitor the threshold of the three tiers and calibrate the penalty levels as needed. Further, the BOSR believes it is unjust to impose the same penalty on BAs that do not have enough supply to cover their uncertainty requirement as those BAs that do not have supply to cover their demand forecast requirement.

Transmission Availability

The proposed buckets concepts and underlying pathways are useful frameworks for transmission rights holders to decide how they will provide and utilize transmission in the EDAM. The BOSR supports the CAISO's proposed three buckets concept and underlying pathways provided to transmission rights holders to utilize their transmission rights in the EDAM. The BOSR believes greater transmission availability in the EDAM will lead to improved day-ahead unit commitment, economically efficient market outcomes, and greater cost savings for EDAM participants and electric utility customers. The proposed framework encourages maximum transmission in the EDAM by making unscheduled and unsold transmission available in the day-ahead market.

Historical Transmission Revenue Recovery

The BOSR supports the proposed historical transmission revenue recovery framework. The proposed historical transmission revenue recovery mechanism can incentivize transmission providers to provide their transmission in the EDAM. First, the mechanism allows the most economic day-ahead market solutions for the entire footprint. Under the proposed mechanism, the market optimization does not consider hurdle rates across the region, which may cause rate pancaking, and, thus, inefficient market

solutions. Secondly, the mechanism will incentivize more participation in the market, especially at the onset of EDAM. The BOSR acknowledges the possibility of transmission rights holders forgoing short-term firm and non-firm transmission revenues by deciding to participate in the EDAM. With the proposed EDAM transmission design, where all unscheduled and unsold transmission is made available to the market, revenues associated with these transactions are at risk. The BOSR believes that before the market matures and the benefits of the market are identified, these forgone revenues should be recovered through the market so as not to harm transmission providers and incentivize participation in the EDAM.

Further Recommendations

As stated in previous comments, the BOSR recommends CAISO establish a standardized calculation rule for historical revenues and a monitoring process for transparency. Given that accounting methods vary BA by BA, it is critical to set a robust rule for calculating each component of the historical revenues to add more accuracy.

However, the BOSR acknowledges that in the long run, the current standard of purchasing transmission may shift. As the EDAM matures, the foregone revenues from third-party sales will be reduced because the transmission will be provided to the market. The transmission will therefore be optimized more efficiently than the status quo currently contracted in the bilateral market. Additionally, with operational cost savings, the market benefits will outweigh the potential decrease in transmission revenues as the market matures. Consequently, the BOSR encourages CAISO to consider an eventual phaseout of the historical transmission revenue recovery through EDAM after the market matures.

EDAM Governance

The BOSR appreciates the efforts of the stakeholder-led GRC and all the participants who helped shaped the final EDAM governance design. The Final Proposal incorporates concerns BOSR members had raised throughout the initiative and the BOSR believes the final proposal aligns with sound governance principals. With the help of a breadth of stakeholders from across the West, the GRC was able to produce a governance structure for EDAM that is reasonably clear about what responsibilities stay with each BA and what matters require joint authority from both the California ISO Board of Governors and the Western EIM Governing Body. The BOSR appreciates the GRC's balanced approach to bringing together such an expansive region in a cohesive manner, while still respecting the laws of the State of California that govern the CAISO. The BOSR acknowledges that the proposal is a negotiated outcome, where no single party received all their desired elements. Furthermore, the BOSR is aware the proposal set forth today would be an insufficient framework for a West-wide RTO and the governance structure would need to continue to evolve as regional market expansion efforts evolve. The BOSR maintains its

position that the GRC’s Phase Three Proposal is an appropriate incremental step reflective of the deeper interdependence inherent in EDAM, while respecting the decisions that remain in the purview of each balancing authority, under their appropriate regulatory construct. As noted in previous comments submitted, the BOSR acknowledges that for an extended day-ahead market to be sustainable, it must not leave any balancing authority area’s native load in a worse reliability situation, and the BOSR understands the GRC has embedded this presumption into the overall governance framework. With this in mind, the BOSR supports the GRC’s final proposal in its entirety and provides the following specific comments.

Delegation of Authority for Market Rules and Advisory Authority

The BOSR supports the joint authority construct for the WEIM and EDAM. The BOSR acknowledges the fact that there continue to be diverging opinions among stakeholders on the structure and scope of joint authority.⁴ The GRC’s final proposal establishes a workable path forward to determine what falls within joint authority and what falls outside of joint authority. The BOSR acknowledges that as EDAM is implemented and the scoping test is put into practice, there may be further opportunities to discuss and refine how the scope of joint authority is appropriately defined. In order to add clarity that the joint authority definition is not intended to cover any balancing authority-specific measures, the BOSR supports the additional footnote after the joint authority definition which states, “For avoidance of doubt, the joint authority definition does not include measures, such as parameters or constraints, the ISO may use to ensure reliable operation within its balancing authority area.” Recognizing stakeholders may still hold differing perspectives about the specific application of the scope of joint authority to a particular policy initiative, the BOSR also notes the decisional classification process, discussed below, provides transparency and the opportunity for stakeholder input so that the two bodies can make a fully informed decision about the application of the joint authority.

The BOSR supports expanding the scope of advisory authority to include day-ahead market rules. Additionally, the BOSR supports the two procedural enhancements made to the advisory authority process. For rules that fall within advisory authority, the GRC is proposing to establish two requirements that would apply in any instance where the Western EIM Governing Body advises against adoption of a proposal: 1) the input must be discussed in joint general session of both governing bodies; and 2) if the

⁴ Some states, while appreciating the expanded language added to the final proposal, continue to have questions regarding implications of adding any tariff change that impacts locational marginal prices to the “applies to” test and believe there should be ongoing review of how such expansion may impact CAISO’s ability to directly address reliability or other BAA specific matters within the CAISO, and adjust as may be necessary.

California ISO Board gives approval to file the proposal with FERC, the Governing Body would have the right to hire independent assistance or counsel to prepare a written statement of its opposition that will be submitted to FERC in the proceeding in which the CAISO makes its tariff filing. The BOSR finds these enhancements will complement the Western EIM Governing Body's oversight of rules that fall under joint authority with an appropriate forum to address critical issues that may affect EDAM Entities but fall outside joint authority. These enhancements to the Western EIM Governing Body's advisory role will enable greater transparency and the necessary dialogue amongst the two governing bodies on issues about which the CAISO Board of Governors may not otherwise be aware.

Decisional Classification Process and the Dispute Resolution Process

The BOSR supports the GRC's proposal to retain the current process for designating the decisional classification for initiatives.⁵ The BOSR affirms that the process is open and transparent, and it allows all interested stakeholders to participate and shape the decisional classification for policy initiatives. The process encourages stakeholders to make substantive arguments about the application of the scope of authority, including the embedded concept of parity between BAs – that no one BA is being asked to give up more decision-making authority than another. As the GRC highlighted, the decisional classification process has been in place since the inception of the Western EIM Governing Body in 2015 without the need to convene the two bodies to decide a decisional classification thus far. Additionally, the BOSR supports the iterative remand process for resolving disagreements between the California ISO Board of Governors and the Western EIM Governing Body on whether to approve a proposal within their shared approval authority. The BOSR affirms it is a thorough process that sufficiently addresses the difficult issue of potential deadlocks.

Size and Composition of the Governing Body

The BOSR supports the GRC's proposal that the Western EIM Governing Body should remain at five members, with the issue to be studied again during the next re-evaluation of governance. The BOSR supports the GRC's proposal that when considering whether to reappoint a sitting member of the Western EIM Governing Body, the Nominating Committee should consider whether doing so fits with the enhanced responsibilities associated with the EDAM. The BOSR contends this is a sensible approach to apply to the process in the interim. Lastly, the BOSR supports the possibility of requiring CAISO

management to arrange for a study in 2023 to evaluate the compensation of the Western EIM Governing Body relative to other similar bodies across the United States.

Stakeholder Engagement in Policy Development

The BOSR supports maintaining the current stakeholder engagement framework. The BOSR considers the current level of engagement from stakeholders not just sufficient, but significant, and contends the CAISO policy initiative process is open and transparent. The BOSR supports the GRC's recommendation of using working groups when the complexity and impact of a policy initiative merit the extra work and understands the benefit to using working groups in these scenarios. The BOSR also supports the proposed process for developing the policy roadmap. Each year the CAISO compiles a catalog of possible initiatives, identified by requirements from FERC, or other mandatory priorities, as well as relevant discretionary initiatives. After the development of the catalog, the GRC is proposing the Regional Issues Forum (RIF) host a roundtable discussion about the discretionary initiatives set forth in the catalog in order to help the CAISO prioritize the various initiatives. The BOSR finds this to be a collaborative and fair way to enhance how initiatives will be prioritized at the CAISO.

CAISO's Responsibility to Consider Regional Stakeholders

The BOSR supports amending the California ISO's Bylaws to more clearly articulate the obligation of the CAISO Board of Governors to weigh the interests of all stakeholders within the footprint of the markets that it administers, reflecting the FERC requirements for regional services. Specifically, the BOSR supports the GRC's proposal to amend Article II, Section 1 of the Bylaws to state:

Consistent with its status as a nonprofit public benefit corporation, and to enhance the efficient use and reliable operation of the ISO Controlled Grid, the Corporation will weigh the interests of all stakeholders within the footprint of the market that it administers, including the Corporation's balancing authority area, EDAM balancing authority areas and WEIM balancing authority areas. The BOSR contends this is a reasonable request to reflect the growing regional nature of the system operator.

Timing for Approval and Implementation

The BOSR continues to support the GRC's proposal that EDAM governance should become effective once FERC has conclusively accepted the CAISO's filing for the EDAM market design, i.e., FERC's approval of the EDAM market design proposal. The range of stakeholder perspectives on this issue reflects the complexity of market evolution. There may be no ideal moment of formal governance transition because deepening partnership is itself an incremental process that began in the collaborative

design of EDAM and will continue as the EDAM footprint grows. The BOSR agrees that the proposed timeline is acceptable as it will give future EDAM entities the necessary level of certainty from FERC to sign implementation agreements to join the EDAM and provide CAISO BA participants a level of certainty that the EDAM product can be implemented as designed.

Conclusion

The BOSR supports the EDAM market design final proposal and believes it is a comprehensive and sufficient design that will achieve increased benefits for all future participants. The final proposal is the compilation of careful and calculated efforts from the CAISO and stakeholders across the West. The BOSR contends that the EDAM market design is an appropriate incremental step toward a full RTO.

Additionally, the BOSR supports the GRC's Phase Three final governance proposal. Again, the BOSR acknowledges the governance proposal would be an insufficient framework for a West-wide RTO and the governance structure will need to continue to evolve as regional market expansion efforts evolve. The BOSR appreciates the GRC's balanced approach to bringing together such an expansive region in a cohesive manner, while still respecting the laws of the State of California that govern the CAISO.

Lastly, the BOSR reiterates its appreciation of the collaborative nature and tireless effort that was required by the CAISO and all participants throughout both initiatives. The BOSR is cognizant of the remaining concerns some stakeholders have on both proposals but emphasizes both the EDAM market design final proposal and the GRC's governance final proposal are viable constructs for a successful and efficient extended day-ahead market.