

Extended Day-Ahead Market: Bundle 1 Straw Proposal July 20, 2020

Comments by Department of Market Monitoring November 13, 2020

I. Overview

DMM strongly supports extending participation in the day-ahead market to more entities across the west. An extended day-ahead Market (EDAM) would increase trading opportunities across the west and allow entities in a broader EDAM region to more efficiently meet their needs as the western electric grid continues to evolve and reliance on renewable energy increases.

The Bundle 1 Straw Proposal covers three topics: transmission provision, resource sufficiency and congestion rent.¹ DMM provides comments on these topics below.

II. Transmission Provision

Transparent and open access to transmission is critical aspect of design

Transparent and open access to transmission is critical for efficient energy and ancillary services markets, allowing entities to access resource sufficiency capacity, and reducing or eliminating incentives to increase congestion rent by withholding transmission capacity.

Transmission is generally allocated in either in the OATT framework or the ISO/RTO framework. The EDAM is attempting to bring these two frameworks together in a new way. This may require significant changes to existing transmission rules and processes. Such changes may not be easy and will require great care to ensure open and efficient markets, along with fair treatment and compensation of transmission rights holders. By 2022 participants in EIM will represent as much as 80% of WECC load, which should provide the critical mass needed to make changes to existing OATT timelines and scheduling practices in the WECC in order to facilitate the efficiency and competitiveness of the western markets.

The current proposal appears to allow for hourly or daily variations in transmission provision. This could increase the difficulty of forward contracting on EDAM prices and products, such as for resource sufficiency capacity. Further, it is unclear how the ability to move transmission capacity between the EDAM and OATT markets on short notice at an hourly granularity will affect the competitiveness of both markets. It would be prudent to explore whether and how EDAM transmission provision can occur further in advance of the EDAM (e.g. perhaps a month or quarter in advance).

One potential idea is to have a predetermined amount of transmission of a specified quality that is not scheduled prior to the start of EDAM available for use by EDAM schedules. To the extent that existing OATT scheduling priorities continue to apply, if the transmission remains unscheduled after the EDAM market run, it could then revert to the applicable OATT scheduling priority. This would be similar to the

¹ *Extended Day-ahead Market Bundle One Straw Proposal* California ISO, July 20, 2020:

<http://www.caiso.com/InitiativeDocuments/StrawProposal-ExtendedDay-AheadMarket-BundleOneTopics.pdf>

open access mechanisms in electric transmission and gas transportation markets where reserved capacity is made available to other market participants if not scheduled by a certain deadline.

The EDAM day-ahead model should reflect reasonable expectation of real-time transmission availability

Schedules clearing EDAM will depend on having the transmission made available in EDAM available in real-time. If transmission used in EDAM is of non-firm quality, or if firm rights holders can schedule closer to real-time and supersede the already cleared EDAM schedules, then it is unclear who holds the transmission rights after the EDAM.

Transmission that facilitates transfers between EDAM BAAs needs to be high-quality transmission that is unlikely to be curtailed or otherwise scheduled in real-time. Transmission of this quality is most analogous to firm transmission under existing OATT frameworks. Some stakeholders have explicitly advocated for a firm transmission requirement, as well as day-ahead tagging of EDAM schedules between BAAs.

However, DMM believes that EDAM transmission requirements need not be limited by existing OATT definitions and scheduling timelines, as is envisioned in the straw proposal. Rather, the ISO and stakeholders should develop an EDAM design focused on principles of transmission quality and availability. EDAM BAAs could make use of the opportunity of a new west-wide market construct to redefine OATT rights definitions and scheduling practices. A market design built on a defined transmission quality and scheduling timelines rather than specific existing OATT definitions can ensure all suitable and available transmission could be made available to EDAM. This approach could also address any potential concerns of market power in access to firm rights on major transmission paths.

The configuration of the transmission system can change from day-ahead to real-time as the physical grid and relevant contingencies change. However, the ability of OATT rights holders to schedule on a transmission path after the EDAM market run would be a new type of change in transmission availability between day-ahead and real-time. This new type of change in transmission availability would be driven by choices of market participants. In addition to adding uncertainty to the EDAM schedules, this could also create potential issues such as the real-time congestion offset issue, as described in the section below.

These are just some thoughts and potential ideas as part of the wider stakeholder discussion on bringing these two transmission frameworks together. However, the issues mentioned here are not exhaustive as there are undoubtedly other ideas and aspects worthy of consideration. Continued stakeholder discussion of transmission provision can lead to a design that ensures transparent and open transmission access while fairly treating and compensating transmission rights holders.

EDAM participation and access to existing interties

The straw proposal states that market participants would no longer be able to submit economic bids or self-schedules at import or export interties between CAISO and EDAM BAAs. Instead, market participants would have to either self-schedule or bid into the EDAM participating BAA adjacent to the CAISO.

Some market participants have argued that this change in the way market participants can import to or export from CAISO appears inconsistent with the proposed voluntary nature of EDAM. A market participant who did not want to use EDAM and would rather use the existing OATT framework would no longer be able to import or export at CAISO ties with an EDAM BAA without participating in EDAM.

This element of the straw proposal fundamentally changes the value and potential uses of OATT transmission on paths connecting to CAISO, as the transmission would no longer be useful for scheduling into and out of CAISO on the basis of economic bids or self-schedules at CAISO interties. While the potential value of transmission currently used to access CAISO would be impacted by this aspect of the EDAM market design, the ISO could not mandate that OATT rights holder in an EDAM BAA make transmission available to EDAM. The construct proposed by the ISO would provide strong incentives to offer transmission to EDAM for purposes of continuing to access CAISO, but there would remain no obligation to offer this transmission to EDAM. An entity could still schedule as they wish on this transmission to facilitate transactions outside of CAISO.

The ISO has explained that it is proposing this change to intertie bidding to avoid modeling and price inconsistencies. Further explanation and examples of the inconsistencies would help DMM and other stakeholders better assess the problem and whether there may be potential ways to correct or mitigate the inconsistencies without removing the option to import or export at CAISO interties with EDAM BAAs.

III. Resource Sufficiency

Non-EDAM export priority important to resource sufficiency effectiveness within EDAM

In the straw proposal, the ISO states it will assign transfers among EDAM entities' schedules in the EDAM the same scheduling priority as internal BAA load. As the straw proposal states:

The CAISO proposes that day-ahead market energy and capacity schedules between EDAM balancing authority areas should have the same priority to each BAA as meeting their own load. This is similar to an existing design of the CAISO market. If an export is linked to a non-RA resource in CAISO, it has a higher scheduling priority than a spot export that is not linked to a non-RA resource. An EDAM transfer out of the CAISO should have the same, higher schedule priority as an export linked to a non-resource adequacy resource²

The ISO should clarify further what the scheduling priority of exports *out of the EDAM* (and into the OATT markets) will be. Specifically, it is not clear what priority the exports out of the EDAM will have relative to real-time loads or EDAM/EIM transfers. The ISO should also clarify what the priority of exports out of the EDAM relative to loads in all BAAs participating in EDAM will be, not just the CAISO. These details will be important to consider in order to design effective EDAM resource sufficiency measures.

² *Extended Day-ahead Market Bundle One Straw Proposal*, p.13

The rules and processes for curtailment of exports by the CAISO and other balancing areas should be reviewed, clarified, and potentially modified -- with a goal of establishing equal treatment and expectations of exports by all balancing areas.

It is DMM's understanding that CAISO's current policy is for both operators and the real-time market to prioritize exports that also clear RUC over native CAISO balancing area load, even when these exports are not explicitly backed by non-resource adequacy resources that support external balancing areas.

Under an EDAM framework, the ISO should consider whether similar treatment would be given to exports out of the EDAM. Under the EDAM proposal, EDAM balancing areas would be required to submit bids or self-schedules in the EDAM to meet operating day requirements (as opposed to CAISO entities whose whole resource adequacy fleet is subject to must-offer obligations). If EDAM load and ancillary service requirements, *plus* non-EDAM demand exceeds available EDAM capacity, non-EDAM load may be served by exports from the EDAM, potentially backed by EDAM resource sufficiency capacity.

DMM appreciates that curtailment of exports after the day-ahead market involves a wide range of operational and market considerations. Therefore, any policy of curtailing exports with EDAM or RUC awards not backed by specific capacity should only be implemented after working carefully through all the issues with WECC Reliability Coordinators, western balancing areas, and other stakeholders and ensuring that the policy aligns with the export curtailment policies of other western balancing areas.

IV. Congestion Rent

Discussion of congestion rent should consider flow based constraints

The proposal aims to allocate congestion rents to the transmission rights owners and to allow BAAs to decide whether to allocate congestion revenue rights (CRRs). While this appears feasible for scheduling constraints such as the transfer limits, it is not as straight forward for flow based constraints, such as Path 26. Flow based constraints will affect congestion prices across BAAs. Therefore it cannot be guaranteed that a CRR could be fully funded without needing congestion rent from another BAA. Either there will have to be rules to not fund CRRs with rent from outside BAA constraints or rules to allow for congestion rent to transfer between BAAs.

Treatment of BAA internal constraints and real-time congestion deficits

The ISO also proposes to have the EDAM treat internal BAA transmission not scheduled prior to EDAM as available to EDAM schedules. If non-EDAM flows are scheduled after the EDAM runs, the limits on these constraints will be reduced in the real-time markets. That is, if the transmission is scheduled after EDAM, the EDAM schedule will be bumped from the transmission.

The money needed to pay the reduced flows from redispatch of EDAM schedules would be funded through the real-time congestion imbalance offset (RTCIO). While the EDAM schedules would pay the day-ahead congestion price for the flows on the internal constraint before buying the flows back in real-time, the real-time congestion price would likely be higher given the lower real-time limit. This would lead to revenue deficits across the total day-ahead and real-time rent collections from the reduced schedules. The ISO and stakeholders should carefully consider these potential deficits and their possible effects on scheduling incentives that may increase these deficits.