

**Post Workshop Comments
of the
California Municipal Utilities Association**

The California Municipal Utilities Association (CMUA) appreciates the opportunity to provide high-level initial comments on the materials presented in the CAISO February 10-11 workshop regarding possible design elements of an Extended Day Ahead Market (EDAM).

CMUA appreciates the evident thought and work that went into the presentations of the EIM Entities and the CAISO staff. CMUA also recognizes that these are high-level discussions, for the most part, to set out principles and design objectives for EDAM, with some levels of detail to flesh out regarding how a financially binding Day Ahead market can be extended beyond the boundaries of the current CAISO market footprint. As noted below, and pending review of any initial CAISO issue paper on EDAM, it may be beneficial to establish targeted work groups that can dig down into implementation details and further understanding of design options among stakeholders.

Overarching Principles

- CMUA submits that having a set of overarching principles may help guide market design choices. Such Principles may include:
- Benefits from EDAM should be broadly based and equitably allocated among market participants. We suspect this principle will be needed to ensure broad support for potential EDAM market changes.
- EDAM should not erode reliable grid operations. The EIM Entities have put forth a Resource Sufficiency (RS) test which is designed to ensure each participating Balancing Authority Area (BAA) can meet its own reliability needs, and this principle seems reasonable and the test should have as its basis the reliability needs of the grid.
- There should be fair and commensurate application of certain rules across the EDAM footprint. Commensurate may not mean identical, but basic principles of fairness need to guide how commitment of resources and transmission are made across the EDAM footprint.

Specific Issues

Application of RS Test and Availability of Capacity Resources

The EIM Entities put forward in workshop materials the concept of an RS test that would ensure that each participating BAA could meet its reliability obligations without inappropriately leaning on other BAAs for needed capacity. CMUA and its members support this concept at a high level. Similarly, we support the concept that resources identified in the RS test need to be “real”

and capable of performing. However, we need to better understand the details of how it would be implemented, and the impact on the CAISO BAA in particular.

For example, we are uncertain what is meant by, and the consequences of, identifying a resource as a capacity resource to meet the RS test, versus the availability of the resource in the Day Ahead (DA) resource optimization. This is a critical question that would benefit from full explication in the CAISO's Issue Paper contemplated to be released later this month. Today, the DA unit commitment is financially binding and unit behavior between the DA and Real Time is disciplined by price exposure. However, it does not appear that the RS test has any financial consequences and thus lacks that internal constraint. CMUA would expect efficient unit substitution between the RS test interval and the DA market, but significant variation between the RS test and the DA market bids would seem to point to some underlying issue such as energy limitations, deliverability, or other issues that would render the unit incapable of performing in the market in the stated manner.

Thus at this initial stage, while CMUA agrees with many of the principles put forward by the EIM Entities, we also welcome the opportunity to dig down into what it means to be identified in the RS test, and how that relates to unit commitment in the DA market. We would expect them to be highly similar and would like to understand if this intuition and expectation is incorrect, and if so, the reasons why.

Congestion Rent Vehicles and Allocation

Allocation of congestion rents will be an important part of the overall justness and reasonableness of the EDAM design. CMUA observes that this issue appears to be one of the least developed within the materials of the EIM Entities.

CMUA urges that we start from these principles: (1) how congestion rents are allocated must follow payment for the embedded costs of the transmission system; (2) the allocation methodology should allow for a meaningful hedge against congestion; (3) a simple solution that works across the market footprint is essential.

CMUA and its members have raised concerns about the efficacy of the current congestion revenue rights (CRR) auction process today as it is applied to the CAISO footprint. We struggle to understand how that process may be expanded to the larger footprint when the underlying design of EDAM, including the contribution of the network model to enable the optimization, may differ so profoundly. In addition, major intertie paths (even though they were historically often planned and coordinated together) have multiple owners and rightholders and transfer capability across seams at trading hubs may not match. Thus, there may be numerous rightholders on a particular path, and differing rightholders on different sides of a hub on what is a continuous path. The EIM Entities point to examples of the California Oregon Intertie, but others examples likely exist on other interregional transfer paths.

This is a key issue to resolve. CMUA makes process suggestions below.

Process and Related Suggestions

Impact on Existing CAISO and Other Initiatives Needs Clarification

The CAISO and state regulators have ongoing initiatives that may be relevant to the assessment of EDAM. These include most obviously the Day Ahead Market Enhancements, but also include the California Public Utilities Commission's consideration of Resource Adequacy (RA) Imports, overall RA Enhancements at the CAISO, and the implementation of a hybrid Transmission Access Charge methodology that could affect options for charging for EDAM transactions. It would be helpful to understand how these initiatives may interact and how the CAISO will ensure that design objectives are harmonized.

GMC Allocation will be Important and the CAISO May Wish to Consider Accelerating Understanding of How that Might Work.

When proposing to become the Reliability Coordinator and detailing how charges for what would become RC West would be determined and allocated, the CAISO made some upfront calculations based on estimates of participation and volumes of load for those that might ultimately take RC services.

CMUA suggests a similar step may be appropriate here. We suspect that many of the potential benefits that can be realized through a larger and diverse footprint, more efficient optimization, and unit commitment benefits, will ultimately be difficult to quantify and in any event the CAISO does not appear to be on a course to undertake such analysis as it applies to its BAA as part of this process. In contrast, EDAM's contribution of revenues to defray the CAISO's costs of operation may be a knowable and concrete benefit to California load serving entities. CMUA, therefore, suggests that it may be helpful to estimate how that "hard" benefit may be derived and estimated, as this could be a critical benefit to assess for California consumers.

The CAISO May Wish to Establish Targeted Working Group Sessions on Complex Issues

On particularly complex issues such as the allocation of congestion rents, CMUA suggest that the CAISO consider working group sessions, open to all participants but targeted at discrete issues that may enable a more thorough discussion and understanding among market participants. CMUA is concerned that this, and perhaps other issues, will be difficult to explore in a broad meeting that covers multiple topics.