

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING,  
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA  
ON THE EXTENDED DAY-AHEAD MARKET WORKSHOP**

In response to the CAISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their comments on the issues discussed during the workshops in the Extended Day-Ahead Market ("EDAM") stakeholder initiative.

In the Six Cities' view, the discussions at the workshops were useful in expanding on the initially identified list of issues and topics that stakeholders will need to resolve in this proceeding if an extended Day-Ahead Market is to go forward. The Six Cities previously encouraged and agree with the approach of focusing first on core market design features, including resource sufficiency and transmission availability, use, and charges.

It is clear there is uncertainty and a lack of consensus among the Balancing Authority ("BA") entities that have been conducting discussions about approaches to resolving these issues regarding certain fundamental principles of how an extended Day-Ahead Market that includes the CAISO and external Balancing Authorities will work.

Of particular concern is the difference in viewpoints among the EIM entities regarding the "voluntary" nature of EDAM participation by non-CAISO BAs. For example, certain BAs appear to accept that the threshold decision to participate in the EDAM is the voluntary decision point, and, having made the decision to enter the EDAM in anticipation of recovering future benefits from such participation, it will be necessary to participate fully in all elements of the EDAM, on equal footing with CAISO entities that are required to schedule all of their load and resources through the CAISO's market processes. Concerningly, other BAs appear to interpret the "voluntary" nature of EDAM participation more flexibly, suggesting that not only is the threshold commitment to participate in the EDAM voluntary, but BAs may then decide on a day-to-day, interval-by-interval basis, whether and to what extent to participate in the EDAM.

The Six Cities oppose EDAM market structures oriented around the latter interpretation of "voluntary." Permitting EDAM BAs to opt into the EDAM on an intermittent and/or variable basis while requiring all CAISO loads and resources to participate fully in the EDAM creates an uneven playing field that will place undue risk on CAISO load-serving entities and undermine durable and reliable market solutions that are the stated goal of the EDAM.

Second, there appears to be a fundamental difference of views as to the nature of a day-ahead "market." At least some EIM entities appear to view the EDAM as primarily a dispatch algorithm applicable to some or all of their loads and pre-purchased resources. On the other hand, the CAISO seems to view the Day-Ahead Market as a trading platform for energy and related products, with the corresponding dispatch and financial settlement being a necessary ancillary function. This difference of views is particularly noticeable in the discussions of the proposed Resource Sufficiency assessment, where at least some of the EIM entities suggest that BAs should come to the Day-Ahead market fully resourced with pre-purchased capacity.

There is obviously merit to each viewpoint, but without some consensus as to the nature and purpose of a day-ahead energy market among the potential participants in that market, it will be very challenging to establish market rules and structures in which all parties will be confident in transacting.

Third, during the workshops, there were several admonitions that some BAs would need to change their existing processes to accommodate the EDAM. The Six Cities urge the CAISO to proceed cautiously in determining what elements of its markets to revise to attract broader regional participation. Unless an element of market redesign will produce benefits to or is necessary for the CAISO BA Area on a stand-alone basis, the CAISO should exercise great care in adapting its markets or imposing new requirements and costs on CAISO load in order to create the EDAM if there is no corresponding commitment by external entities to actually join and participate on a level playing field with the CAISO.

With respect to the Resource Sufficiency evaluation, the Six Cities generally support the ideas that the evaluation should be accurate, meaningful, and fairly applied, consistent with the principles described during the workshops. The Six Cities also agree that the supply associated with the Resource Sufficiency evaluation should be “real” and capable of performing, and that e-tags may be a logical way to document such performance.

With respect to the proposal by the EIM entities regarding how the Resource Sufficiency evaluation should be performed that was discussed during the workshop, the Six Cities have several concerns.

First, the proposed “spreadsheet” mechanism is clearly in need of additional refinement if this concept is to be the basis for the EDAM Resource Sufficiency evaluation. If envisioned to be literally a physical Excel workbook containing a list of resources that a BA will use on an hourly basis to meet its projected hourly loads as described during the workshop, this manual type of approach may actually be extremely cumbersome and difficult to review and administer. The Six Cities agree with keeping market structures simple, but this may be an area where stakeholders should consider if alternative approaches may be more efficient and less costly on an ongoing basis.

Second, and more importantly, the implications of resources being reported on Resource Sufficiency evaluations are unclear. If a BA may report having resources to meet the needs of its BA load, but those resources are not actually required to participate in the EDAM if so listed, then it is not clear that the Resource Sufficiency evaluation will actually be meaningful. It may be possible for a BA to list resources on its Resource Sufficiency evaluation showing, but to then offer an entirely different combination of resources, to offer resources having different characteristics than initially reported, or even to offer fewer resources into the EDAM. It is difficult to envision how to design a Resource Sufficiency evaluation that requires resource-specific showings in advance of the EDAM but is not also accompanied by an EDAM must-offer obligation. If the Resource Sufficiency evaluation is intended only to show that a BA is resource sufficient at some point in time ahead of the Day-Ahead Market, and not to show the resources that actually will be participating in the Day-Ahead Market, then the Resource Sufficiency showing may be highly inaccurate, not to mention prone to gaming and manipulation. Such risks

are particularly acute with respect to BAs that own or control large quantities of resources relative to the needs of their loads.

Third, it appears that at least some EIM BAs may envision being able to engage in third party, non-EDAM transactions for resources that are shown on the Resource Sufficiency evaluation. Consistent with the comments provided immediately above as well as with the Six Cities' comments related to voluntary participation in the EDAM, if a resource is considered as available for purposes of meeting a BA's Resource Sufficiency evaluation, then that resource should not be separately sold to and settled bilaterally with another EDAM participant or to a third party. While some BAs might prefer to have maximum flexibility to make last minute energy or capacity sales of resources by withdrawing the resource's participation in the EDAM to make non-EDAM sales elsewhere, such an approach will undermine the durability and reliability of the EDAM.

Finally, during the stakeholder workshop, Powerex in particular voiced repeated concerns regarding the potential for BAs to inappropriately "lean" on other BAs, and it appears that several (if not all) elements of the EIM entities' proposed Resource Sufficiency evaluation are intended to mitigate such "leaning" risks. The Six Cities agree with the general principle that BAs should be independently able to meet their forecasted load needs on a Day-Ahead basis, but given that this particularized concern (coupled with a desire to rely on existing practices) appeared to be driving the suggested structure and requirements for the Resource Sufficiency evaluation, it may be useful for stakeholders to discuss in greater detail the leaning scenario or existing leaning activity that is or may be occurring in order to more directly address it.

With respect to the proposals regarding the availability, use, and compensation for transmission, the Six Cities believe that the proposed approaches discussed during the workshop presentations provide a good platform for further discussions. From a principles perspective, and without agreeing to any of the specific proposal elements at this time, the Six Cities generally agree that EDAM transmission should be both reliable and high quality (i.e., not recallable or subject to economic curtailment), and the EDAM should accommodate existing rights. Consistent with the above discussion regarding the voluntary nature of EDAM participation, stakeholders will need to have a continuing conversation about what transmission is provided for EDAM transactions by transmission service providers and the applicable transmission charges, including the level of any hurdle rate and the applicability of charges for wheeling. As with the Resource Sufficiency test, the Six Cities caution the CAISO against creating conditions where CAISO-funded transmission is widely available for use in EDAM, but external entities provide more limited transmission resources.

Similarly, proposals regarding the entitlement to and allocation of congestion revenue rights and congestion rents will require significant further discussion. The Six Cities strongly support preservation of the existing principle within the CAISO that load serving entities are entitled to allocations of congestion revenue rights because they have correspondingly funded the transmission system. However, some participants in the stakeholder workshop suggested that alternate allocations may be appropriate in order to incent transmission availability in the EDAM. There is clearly a balance that will need to be struck here, and it is not apparent that there is consensus among stakeholders for any particular approach at this time.

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