Extended Day-Ahead Market Benefit Study

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Scope of Study

To simulate the specific EDAM design on a realistic footprint, not a simplified representation of a wholesale market across the entire WECC

- Calculate multiple benefit metrics: (1) Adjusted Production Cost (APC), (2) impact on wheeling revenue,
 (3) loss of bilateral trading profits, and (4) EDAM congestion and transfer revenues
- Model EDAM's GHG structure: as specified in the EDAM design
 - Simulated the "GHG Reference Pass" to set limits on transfers into the GHG region (CA and WA)
 - Modeled resource-type specific GHG costs
- Simulate existing real-time markets: continued existence of the WEIM in parallel with the EDAM
 - Estimated the impact on existing WEIM trades and congestion revenues
- Capture value of coupled day-ahead and real-time markets to manage unexpected imbalance: modeled renewable and load forecast uncertainty between DA and RT
- **Realistically represent bilateral markets:** captured existing transmission rights, major trading hubs, block trading, CAISO intertie trades, hourly BA-to-BA trades, wheeling charges where applicable

Study participants: BANC, Idaho Power, LADWP, and PacifiCorp

Communicated with CAISO about their system characteristics and the proposed EDAM design

The Study Estimates EDAM Benefits Incremental to EIM Benefits



*Avangrid office; generation-only BAA with distribution across multiple states. Map boundaries are approximate and for illustrative purposes only.

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Modeled EDAM Footprint and Study Year

Simulations are based on 2032 as a proxy year to represent annual benefits for the first decade of EDAM operations

The simulated EDAM footprint includes:

- **PacifiCorp**, broken into PAC-East (PACE), PAC-West (PACW), and PAC-West in Washington (PAWA)
- The California ISO (CAISO)
- Idaho Power (IPCO)
- Los Angeles Department of Water and Power (LADWP)
- The Balancing Authority of Northern California
 - Broken into SMUD and "Rest of BANC"



Study Approach and Framework



Summary of EDAM Study Results

The results document significant benefits offered by the proposed EDAM design:

- Over \$800 million in annual cost savings to EDAM participants, with net benefits of over \$430 million
 - Savings associated with 50 TWh in EDAM transactions, representing a 27% increase in trade between EDAM participants
 - Every one of the assumed EDAM participants benefits (even after considering reduced bilateral trading gains and wheeling revenue losses, if any)
 - Results are incremental to benefits from EIM membership (i.e, based on difference of "EDAM+EIM" benefits and "EIM" base-case benefits),
 - The study finds that EIM trading declines slightly, reflecting that day-ahead optimization under EDAM more efficiently takes on a portion of the role played by EIM today
- 2.4 TWh in reduced renewable generation curtailments and reduced overall emissions
 - The EDAM design's reference pass methodology successfully prevents any significant resource reshuffling, resulting in EDAM-, EIM-, and WECC-wide decreases of GHG emissions, with lower renewable generation curtailments, reduced fossil fuel generation, and a displacement of less efficient generation with increased output from lower-cost resources

Summary of 2032 EDAM Footprint-Wide Benefits

The assumed EDAM footprint is estimated to see gross benefits of \$810 million/year, with net benefits estimated at \$438 million.

Benefits driven by 50 TWh increase in day-ahead trades between the assumed EDAM participants, with significant EDAM congestion and transfer revenues EDAM Benefits (\$ millions/year)

Benefit Metric	Modeled EDAM Footprint
EDAM Benefits	
Adjusted Production Cost Savings	\$134
EDAM Congestion Revenues	\$269
EDAM Transfer Revenues	\$409
Total EDAM Benefits	\$813
Other EDAM Related Impacts	
Impact on Wheeling Revenues	-\$103
TRR Settlements [1]	\$0
Impact on EIM Congestion Revenues	-\$16
Impact on CAISO DA Tieline Trading Value	-\$57
Reduced Bilateral Trading Value [2]	-\$199
Net EDAM Benefits	\$438

Notes:

[1] TRR settlements (hold harmless for lost wheeling revenues) are zero for footprint

[2] Reduced bilateral trading values of exports and imports from the BAs

of EDAM members, includes impacts on trades by third-party marketers.

Total BA-to-BA Transfers by Trade Type

The EDAM market enables a 12% increase in overall WECC transfers/trades, and a 27% increase directly for the EDAM members

- Total WECC trading increases ~30 TWh due to the EDAM market
- New WECC trading comes from block trades (+11%), and hourly bilateral trading (+7%)
- Trading volumes decrease in EIM (-9%), for CAISO intertie trades (-39%), and hourly trades on longterm ETCs (-23%)
- Total EDAM transactions: 51 TWh



Trading Patterns in EDAM

We observe two key patterns the simulated in EDAM transactions:

- During midday hours, the market uses excess solar in CAISO, which would get curtailed without EDAM, to back down thermal generation in PACE, PACW, and IPCO
- In the overnight hours, the most efficient gas-fired generation (usually in PACE) displaces less efficient (i.e., higher cost and higher emitting) gas generation in CA, OR, and WA
- Trading patterns would likely become more efficient as new members join the footprint
 - Our EDAM footprint has little PNW hydro and no
 AZ/NV solar with a different profile than CA solar



Generation Change: Base Case to EDAM (DA and RT)

EDAM enables beneficial shifts in the generation mix to achieve production cost savings and emissions reductions

- Renewable curtailments fall ~1,200 GWh in dayahead, ~2,400 GWh in real-time
- In day-ahead, reduced renewable curtailments displaces mostly gas
- In real-time, the simulated EDAM footprint exports more renewables (due to lower curtailments) and gas generation to the non-EDAM portion of the EIM footprint
 - Overall, gas generation is lower due to implementation of EDAM
- Emissions fall in EDAM, EIM, and WECC



CAISO Renewable Curtailments: 2032 model vs. 2022 actual

While EDAM reduces curtailments by ~2.4 TWh, curtailed renewable energy in CAISO still amounts to over 10% of all renewable generation in the BAA

- In spring shoulder months, over 20% of renewable energy is curtailed in the CAISO BAA
- There remains over 20 TWh of curtailments in CAISO in our 2032 EDAM Case

This result highlights the potential for increased benefits as more BAAs join EDAM, particularly BAAs with additional transmission rights into CAISO/California



GHG Emission Reductions: EDAM vs. Base Case

EDAM reduces emissions: both within the GHG-regions of EDAM and the remaining EDAM footprint, as well as within EIM and WECC-wide

Simulations show that EDAM's GHG design (incl. its reference pass methodology) successfully prevents significant resource reshuffling, resulting in:

- Reduced renewable generation curtailments, particularly in high-renewable areas such as CAISO
- Switching from less efficient gas units to more efficient gas units within the EDAM footprint
- WECC-wide, coal generation falls by 200 GWh
- PacifiCorp-, EDAM-, EIM-, and WECC-wide decreases of GHG emissions

	EDAM			WECC	
Case	EDAM GHG Region	EDAM Non-GHG	Total EDAM	Total EIM	Total WECC
Base Case	16.31	19.31	35.62	125.37	170.70
EDAM Case	15.78	19.20	34.98	125.13	170.42
EDAM - Base	-0.54	-0.11	-0.65	-0.24	-0.29

Total Emissions in Million Metric Tons (2032)

Comparison with other Recent WECC Market Benefit Studies

Recent market studies focus on APC benefits and may not have reflected the specific characteristics, likely footprints, and payments associated with the EDAM

It is difficult to compare the benefit estimates across studies, because each estimated different metrics

- The WMEG and State-led studies show lower Adjusted Production Cost (APC) benefits from a day-ahead market than our study
- Brattle's is the only study to quantify congestion and transfer revenues, wheeling fee losses, loss of bilateral trading profits
- The State-led study estimated resource adequacy related investment benefits (capacity savings), which do not apply to EDAM but would apply to a WRAP or RTO

Summary of Market Benefits Results Across Studies



Note: State-led study doesn't include a Two Market case for DA (not full RTO) that includes CAISO, but benefits for such a case would likely fall between those of the One Market DA and Two Market A DA cases.

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Estimated EDAM Benefits are Conservatively Low



The estimated benefits are likely understated due to several factors:

- **Overstated base-case efficiency:** our simulation of the status quo is more efficient than reality.
 - The Base Case assumes that balancing authorities have optimal security-constrained unit-commitment and dispatch (SCED) in both DA and RT, making the simulated dispatch more optimal than in reality.
 - Inefficient utilization of transmission due to bilateral scheduling and trading is not fully modeled, understating the extent EDAM will be able to make better use of available transmission.
 - Transmission outages are not modeled, which would magnify the benefit of SCED-based congestion management in EDAM compared to the status quo
- Normalized loads and fuel prices: the model uses weather-normalized loads and averaged monthly natural gas prices without daily volatility.
 - Challenging market conditions, such during as the 2022 gas price spikes, will magnify EDAM benefits. Illustrated by the WEIM experience in 3Q of 2021 and 3Q-4Q of 2022.
 - The Base Case does not reflect the limited liquidity of bilateral market during such challenging market conditions.
- No capacity benefits quantified: we have not quantified the extent to which EDAM may reduce investment costs associated with lower operating reserve requirements.
- Limited EDAM footprint: like in EIM, EDAM benefits will increase as more parties join EDAM

Model Overview and Assumptions



Overview of Modeling Approach

We utilize the WECC ADS nodal production cost model as a starting point imported into Power System Optimizer (PSO), as refined during the EDAM feasibility study and follow-on engagements

Utilized the Polaris Power System Optimizer (PSO), an advanced market simulation model

- Nodal mixed-integer model representing each load and generator bus in the WECC
- Licensed through Enelytix
- Detailed operating reserve and ancillary service product definition
- Detailed representation of the transmission system (both physical power flows and contract paths)
- Sub-hourly granularity (but used hourly simulations due to limited data availability)
- Designed for multiple commitment and dispatch cycles (e.g., DA and RT) with different levels of foresight
- EDAM feasibility study assumptions updated to reflect the most recent utility resource plans and forecasts of system conditions and costs

PSO is uniquely suited to simulate bilateral trading, joint dispatch, imbalance markets, and RTOs, reflecting multiple stages of system operator decision making

ENELY

powered by PSO

Independent Simulation of Multiple Time Horizons

PSO simulates multiple independent decision cycles to capture day-ahead vs. real-time unit commitment and dispatch



Multi-Functional Simulation of WECC



PSO's multi-layer simulations represent the various physical, policy, and operational facets of the WECC

- Physical grid with ~20k buses, ~25k lines and ~5k generators represented as DC power flow
- 38 Balancing Authority Areas (BAAs) and contract paths
- The WECC reserve sharing groups
- Diverse state clean energy policies
- Major trading hubs (e.g., Mid-C, Malin, PV)
- Bilateral transmission rights
- Renewable diversity, day-ahead forecast uncertainty, real-time operations
- CAISO and WEIM footprints

Types of Trades and Transmission Reservations Modelled



Our model simulates the use of different types of contract-path transmission reservations for bilateral trading across DA and RT

- Existing long-term transmission contracts (ETCs) and incrementally purchased transmission
- Total reservations on each contract path is limited by the total transfer capability (TTC)
- Trades are structured as blocks or hourly
- Bilateral trades between BAs, at major hubs, or across CAISO interties
- Account for renewable diversity and day-ahead forecast uncertainty vs. real-time operations
- Unscheduled transfer capability released for EIM trades in real-time

Types of Trades Modeled

Total Transmission Capability (TTC) Unscheduled/unsold Transmission

EIM Trades

Hourly Bilateral Trades on Incremental Transmission

Hourly Bilateral Trades on ETCs

Hourly EDAM, CAISO DA Intertie Trades

Block Trades on Incremental Transmission

Block Trades on ETCs

Modeling Assumptions: Generation Mix, Gas Prices, Reserves

GW

250

Total capacity in assumed EDAM footprint: nearly **200 GW**

- Resource mix based on published plans as of Fall 2022
- Dispatchable capacity (including battery and hydro) exceeds EDAM peak by ~40 GW
- Solar capacity by 2032 is nearly 100 GW, with a significant portion from CAISO

Gas Price Forecast

 Compared the data from multiple participants at SoCal, Kern, Malin, and Sumas, and are using the middle forecast of the group, which shows prices between \$4-5/MMBtu (2022\$)

2032 Capacity Mix in EDAM Footprint



EDAM GHG Structure: Illustration

Sales incur unit GHG cost, relevant hurdles, and are limited by attributions from the <u>GHG Reference Pass</u> Resources can sell into neighboring BAAs by paying applicable fees:

- Bilateral market: OATT fee, trading margin
- EIM: no hurdle on available transmission
- EDAM: no hurdle on Buckets 1,2, & 3



Resources serve load in their own BAA with no hurdle EDAM GHG Structure: "Reference Cycle"

Our GHG modeling structure accounts for two constraints specified in the EDAM design for GHG attributions relative to a baseline from EDAM's "reference pass" cycle, which we simulate as well

1. Resource Specific GHG Attribution (resource-type attribution under proposed approach) =



2. BAA Total GHG Attribution <= (Net TTC Difference - BAA Net Exports hourly in reference pass)

These reference pass results set **hourly export limits** that are enforced in the actual EDAM case for EIM and EDAM members for sales to GHG balancing authorities

Day-Ahead Load & Renewable Forecasting Errors

Historical utility load and renewable data was used to develop a representation of 2032 DA/RT forecast error

- Different load profiles applied in the DA and RT cycles of the model to capture forecast error
- Used for all EDAM members, including CAISO
- Allows for a <u>better estimate of the</u> value of markets, which helps BAs react to forecast errors



EDAM Modeling Assumptions: Resource Sufficiency, Transmission

Resource Sufficiency Test

- The EDAM Straw Proposal applies the Resource Sufficiency Test to each EDAM member the day prior to real-time, before day-ahead market operations
 - In the 2019 EDAM Feasibility Study, E3 conducted an hourly analysis of Resource Sufficiency for each proposed EDAM member at that time
 - In that analysis, failure of the test was extremely rare
 - In fact, all current study participants (BANC, CAISO, IPCO, LADWP, SMUD, and PAC) previously passed the resource sufficiency test in all hours
 - For this study, conducted ex-post check and confirmed that all assumed EDAM members are resource sufficient in all hours

EDAM Transmission

- All three buckets of EDAM transmission are modeled and assumed to be hurdle-free:
 - Bucket 1: Transmission to Support Resource Sufficiency
 - Includes existing long-term transmission contracts ("ETCs") for energy used for sufficiency accounting purposes
 - Bucket 2: "Donated" Transmission Contracts
 - Existing transmission contracts (ETCs) made available ("donated") to the EDAM by participants
 - Bucket 3: Unsold Firm Transmission
 - Remaining transmission made available for EDAM (participants might hold back from transmission for block trading)
- Simulated Bucket 1 and 2 EDAM transmission equals total ETC capacity; Bucket 3 transmission equals the remaining transfer capability (i.e., TTC less ETC) between the assumed EDAM members

Imbalance Reserve Requirement

EDAM reserve requirement estimated to fall about 2 GW/hr in the EDAM Case (relative to Base Case) due to the diversity benefit achieved by the EDAM footprint Imbalance Reserve is a new reserve product being implemented by the CAISO as part of their DA Market Enhancements (DAME) initiative, and will apply to EDAM

- The Imbalance Reserve requirement (up and down) will be set to meet the 97.5 percentile of each BAAs historical net load variability
- In EDAM, participants' Imbalance Reserve Requirement will be reduced by the diversity benefit created by pooling commitment and dispatch across the regional footprint
- Does not impact other operating reserve types regulation, contingency, etc.
- Brattle Assumption: we calculated each EDAM participants Imbalance Reserve Requirement and the EDAM diversity benefit to reduce each member's requirement

EDAM Modeling Assumptions: Hydro Generation

Modeled hydro generation reflects an "Average year" in the WECC, with total generation at 165 TWh

 Most hydro generation is "load following"; smaller share of hydro resources is able to follow the market





Detailed Explanation of Benefit Metrics



Benefit Metric: Adjusted Production Cost

Adjusted Production Cost (APC) is a standard metric used to capture the direct variable energy-related costs from a customer impact perspective

The APC is the sum of production costs and purchased power less off-system sales revenue:

- (+) Production costs (fuel, startup, variable O&M, emissions costs) for generation owned or contracted by the loadserving entities
- (+) Cost of bilateral and market purchases valued at the BAA's load-weighted energy price ("Load LMP")
- (-) Revenues from bilateral and market sales valued at the BAA's generation-weighted energy price ("Gen LMP")

The APC is calculated for the Status Quo Case and the RTO case to determine the RTO-related reduction in APC

 By using the generation price of the exporter and load price of the importer for sales revenues and purchase costs, the <u>APC metric does not capture wheeling revenues and the remaining portion of the</u> <u>value of the trade to the counterparties</u> (see next slide)

Operational Benefit Metrics: Wheeling Revenues, Trading Gains

Based on the simulation results, we also estimate several additional impacts from increased trading facilitated by the market reforms, which is not fully captured in APC.

- Wheeling Revenues: collected by the exporting BAAs based on OATT rates
- Trading Gains: buyer and seller split 50/50 the trading margin (and congestion revenues in EIM/EDAM)

EXAMPLE: Bilateral Trade



The <u>APC metric</u> only uses area-internal prices for purchase cost and sales revenues, which does not capture part of the value:

- A receives \$30×50MWh=\$1,500 in APC sales revenues
- B pays \$50×50MWh=\$2,500 in APC purchase costs
- \$1,000 of trading value not captured in APC metric

Trading value = 20/MWh Δ price x 50 MWh = 1000

- Exporter A receives wheeling revenues: \$8/MWhx50MWh = \$400
- Remaining \$600 trading gain split 50/50: both A and B receive \$300

Illustration of APC and EDAM Congestion and Transfer Revenues



EDAM congestion and transfer
revenues estimated based onLoad LMP = Purchase costindividual tieline LMPs:

- Congestion Payment (to exporter)
 = MW x (Tie LMP₁ Gen LMP₁)
- Congestion Payment (to importer)
 = MW x (Load LMP₂ Tie LMP₂)
- Transfer Payment (split 50/50)
 = MW x (Tie LMP₂ Tie LMP₁)

Presenter Bio



John Tsoukalis PRINCIPAL | WASHINGTON D.C.

John.Tsoukalis@Brattle.com +1.202.908.2617 John has broad experience helping clients address a range of issues related to wholesale power markets. He is an expert in electric market modeling, analyzing regional market participation, transmission benefit-cost analysis, transmission rate design, market design, detection of market manipulation and damages analyses, and strategic planning.

John has worked with electric utilities, cooperatives, public power authorities, transmission developers, generation owners, power traders, and ISO/RTO staff. He has assisted clients in developing whole market rules, ancillary service product, designing market power mitigation regimes and auction clearing mechanics, leading strategic planning initiatives, and modeling the power system to assess the benefits of new transmission, the benefits of participating in wholesale power markets, and the value generation assets.

John has provided expert testimony to FERC, provincial regulators in Canada, and in U.S. Federal Court related to transmission rate cases, alternative transmission rate designs, cost allocation, and contracts for wholesale power.

Acronyms

- ADS Anchor Data Set (WECC)
- AESO Alberta Electric System Operator
- APC Adjusted Production Costs
- AVA Avista Corporation
- AZPS Arizona Public Service Company
- B2H Boardman to Hemingway Transmission Line
- BA Balancing Authority
- BAA Balancing Authority Area
- BANC Balancing Authority of Northern California
- BCHA British Columbia Hydro and Power Authority
- BPA Bonneville Power Administration
- CAISO California Independent System Operator
- CC Combined Cycle generator
- CFE Comision Federal de Electricidad (Mexico)
- CO/MO Colorado/Montana
- CT Combustion Turbine generator
- DA Day Ahead
- DAME Day Ahead Market Enhancement
- EDAM Extended Day Ahead Market
- EIM Energy Imbalance Market
- EPE El Paso Electric Company

- ETC Existing (long-term) Transmission Contract GHG Greenhouse Gas GW Gigawatt GWh **Gigawatt Hour** GW/hr Gigawatt/Hour IID Imperial Irrigation District IPCO Idaho Power Company ISO Independent System Operator kW kilowatt LADWP Los Angeles Department of Water and Power LMP **Locational Marginal Price** MMBtu Million British Thermal Units MWh Megawatt Hours Nitrogen Oxides NOx NV NV Energy (Nevada) NWMT Northwestern Energy (Montana) 0&M **Operations & Maintenance** OATT **Open Access Transmission Tariff** PAC PacificCorp PACE PacificCorp East PACW PacificCorp West PacificCorp West in Washington PAWA
- PGE Portland General Electric Company
- PNM Public Service Company of New Mexico
- PSEI Puget Sound Energy
- PSO Polaris Power System Optimizer
- PV Photo Voltaic
- RT Real Time
- RTO Regional Transmission Organization
- SCED Security Constrained Economic Dispatch
- SCL Seattle City Light
- SMUD Sacramento Municipal Utility District
- SRP Salt River Project
- TEPC Tucson Electric Power Company
- TIDC Turlock Irrigation District
- TPWR City of Tacoma, Department of Public Utilities
- TTC Total Transmission Capability
- TWh Terrawatt Hour
- UEL Upper Electrical Limit
- WAPA Western Area Power Administration
- WECC Western Electricity Coordinating Council
- WEIM Western Energy Imbalance Market