



June 17, 2025

CAISO Board of Governors,
Western Energy Markets Governing Body

Subject: Extended Day-ahead Market Congestion Revenue Allocation and Non-discrimination

Dear Board of Governors and Governing Body Members:

Appian Way appreciates the opportunity to provide comments to the CAISO Board of Governors and the Western Energy Market Governing Body regarding the Final Proposal for the EDAM Congestion Revenue Allocation initiative. Appian Way appreciates and supports CAISO and other EDAM members' efforts to make progress toward a broader regional market, the promise of which will bring greater reliability, market efficiency and cost savings for consumers. The Pacificorp OATT proceeding raised the concern and unintended consequence that EDAM entities with firm rights may not receive sufficient congestion revenues to hedge those rights due to parallel flows. The Pacificorp OATT proceeding illustrates the challenge of moving to a system with optimal transmission usage based on economics and coordinated dispatch, as envisioned with EDAM, while simultaneously overlaying the existing OATT system of physical rights.

Appian Way appreciates the good faith efforts by CAISO to address these original concerns, as well as to acknowledge additional unintended consequences of the congestion allocation proposal that have been identified during the expedited stakeholder process. In particular, the revised proposal commits to a "near term enhancements process" to address self-scheduling incentives as well as what CAISO acknowledges is "asymmetric treatment" of CAISO CRR firm rights, as compared to firm OATT rights, with respect to allocation of congestion associated with parallel flows. We would like to acknowledge and commend CAISO's responsiveness to stakeholder and expert feedback through this complex process.

Nevertheless, the plain fact is that the change to EDAM congestion allocation in the final proposal alters EDAM from a market design with non-discriminatory treatment of parallel flows to one that is patently discriminatory. In an LMP market like CAISO, CRRs are the financial equivalent of firm transmission in accordance with FERC precedent and fundamental electricity market design. For electricity rates to be just and reasonable in EDAM requires non-discriminatory treatment of firm rights such as OATT transmission service and firm-equivalent rights such as CRRs.

This revised proposal treats CAISO firm rights as subservient to OATT NITS and PTP rights in two obvious ways:

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- First, while non-CAISO OATT rights will receive congestion allocation associated with parallel flow on CAISO’s system, CAISO will not receive the same priority congestion allocation to parallel flows on neighboring EDAM BAA’s systems.¹
- Second, the proposal provides firm OATT rights with preferential access to CAISO’s transmission network at the expense of firm CAISO rights. Frequently, network transmission congestion arises from outages and/or derates to the transmission network and, in these circumstances, it is often the case that not all firm rights can be simultaneously feasible. In the case of EDAM, when there will be a reduction in transfer capability on CAISO’s system such that not all rights holders can be made whole, OATT rights will be honored 100% with no reduction in capacity, whilst CAISO rights will absorb the financial impact of their own pro-rata share of the reduction as well as subsidize external firm OATT rights flowing on the same constraint. We believe that all firm rights holders (OATT or CRR) should be treated equally and share pro-rata in transmission derates/congestion rent shortfalls. As yet, to our understanding, CAISO staff has not acknowledged this aspect of “asymmetric treatment” between CRRs and /OATT rights.

Appian Way believes the discriminatory treatment noted above can be easily remedied and does not require complex analysis or software changes. CAISO has already identified the fix to be implemented during the near-term enhancement process. There is no reason that this fix – to treat firm OATT rights and CRRs non-discriminatorily – cannot be socialized among EDAM market participants for approval and implemented prior to the go-live date for EDAM in 2026.

Finally, Appian Way remains concerned that EDAM’s successful launch may be thwarted due to the potential gaming incentives associated with overlaying a physical rights OATT system with the LMP market and the “use or lose” nature of these physical rights. These concerns have been highlighted by the WEM Market Expert, Susan Pope, the CAISO MSC, along with numerous other market participants, including Appian Way. The goal of EDAM is to have lower cost dispatch and more efficient transmission usage by using market price incentives (LMP). This requires generation resources making themselves available to the market operator for economic redispatch. However, resources will not make themselves available for redispatch if their congestion allocation is optimized by submitting a balanced schedule from uneconomic resources. The current EDAM leaves generators with the incentive to arrange bi-lateral OATT contracts (or designate NITS resources that are most exposed to downward price congestion) rather than having these resources respond to EDAM price incentives.

Fortunately, there is a well-known solution for addressing these incentives which have evolved in other US ISO/LMP markets which entails conversion of physical OATT rights to financial rights or firm flow entitlements, and which decouples a resource’s physical schedule from its economic entitlement to congestion revenues. Allocation of these rights requires a business solution among stakeholders to negotiate a fair and acceptable process for converting physical rights. EDAM will need to move in this direction to obtain the full benefit of the broader market.

¹ CAISO acknowledges this “asymmetric treatment” and proposes to address it in two ways. First CAISO commits to establish an expedited “near-term enhancements process” that will allow CAISO CRRs to receive congestion allocation on parallel flows on neighboring BAAs, and attempt to implement this within the first year of EDAM operations. And CAISO is proposing to fully fund CRRs for congestion associated with parallel flows in the interim period with the cost of doing so uplifted to CAISO transmission customers/load through an existing congestion balancing account.