



October 28, 2025

CAISO Board of Governors,
Western Energy Markets Governing Body

Subject: Congestion Revenue Allocation in both EDAM and CAISO

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 implementation of the Extended Day-Ahead Market (EDAM) and the ongoing CAISO CRR Enhancements process. Appian Way participates in the CAISO markets directly and also trades directly with counterparties in the broader western energy markets. Appian Way is also a member of the Energy Trading Institute, which advocates for open, transparent, competitive and fair electricity and related markets in the United States of America.

Appian Way wholeheartedly supports the promise of a broader regional market through EDAM, which, if implemented properly, will bring greater reliability, market efficiency and cost savings for consumers throughout the west.

Implementation Challenges Due to EDAM's Continued Reliance on OATT Rights

The CAISO Market Surveillance Committee (MSC), the WEM Governing Body Market Expert and the CAISO DMM have all raised significant concerns regarding the design of the EDAM market. Each of the three market experts, and many stakeholders, have identified the same basic concern: that generators under EDAM will not be incentivized properly to follow the least-cost dispatch because of the "use or lose" nature of physical rights in the OATT system and the incentives this may create for uneconomic self-scheduling or uneconomic bidding. While these issues were raised over the summer in the context of parallel flows where one BAA's transactions flow power over a neighboring BAA's transmission network, this problem is universal and more general. Self-scheduling incentives will also exist in any "OATT physical rights" paradigm both within BAAs and between them. Every market in North America that has successfully implemented an LMP system to achieve least-cost dispatch and efficient transmission usage has had to transition from a physical rights system to some form of allocated financial rights in order to avoid significant implementation challenges, inefficiencies or market design flaws.

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It is crucial that CAISO move with urgency to address the concerns raised by the three sets of market experts mentioned above, and stakeholders. There are different ways to address the problem, but there is a common aspect of any solution – the need to disentangle the payment of congestion from the physical scheduling of power (the “use of lose” problem).

Non-Discriminatory Treatment of Firm Rights Across EDAM and CAISO’s CRR Enhancements Process

For electricity rates to be just and reasonable in EDAM requires non-discriminatory treatment of firm rights based on OATT transmission service and firm-equivalent rights based on CRRs. During the summer process to address congestion allocation for firm OATT rights, CAISO committed to a “near term enhancements process” to address both self-scheduling incentives as well as what CAISO acknowledged is “asymmetric treatment” of CAISO CRR firm rights, as compared to firm OATT rights, with respect to allocation of congestion associated with parallel flows.¹ While in June CAISO proposed to fully fund CRR exposures to congestion in non-CAISO BAAs, in August CAISO reversed this commitment, in a surprise to market participants, announcing that CRR exposure to congestion in non-CAISO BAAs would not be funded at all. The dichotomy and discrimination here is rather blatant – EDAM proposes to make whole with respect to congestion allocation for non-CAISO OATT rights that flow on CAISO’s system but provide zero congestion allocation for CAISO firm rights that flow in non-CAISO-BAAs.

Fixing this asymmetric treatment should be very high priority for the CAISO and WEM. While CAISO parallel flows on Pacificorp’s system may not be so material at the outset of EDAM, this is unlikely to be the case once other BAAs join EDAM. Moreover, Pacificorp flows do impact CAISO constraints and it is essential that the firm rights of the respective BAAs be treated non-discriminatorily.

CAISO CRR revenue inadequacy due to EDAM congestion external to CAISO adds another element to the intractable revenue inadequacy problem in CAISO. CAISO’s CRR Enhancements Process has been proceeding for approximately eleven months and will soon move to the policy development phase. Most stakeholders, including the major load-serving entities (LSEs), have acknowledged that CRRs have a crucial role in CAISO’s market by enabling the hedging of congestion in the LMP system, and that underfunding/revenue inadequacy of CRRs has been extreme and unpredictable, significantly undermining the hedge value of the CRR product. Physical market participants have described exiting the CRR market because of the degree and unpredictability of underfunding and CAISO staff identified LSEs increasingly choosing to sell their CRR allocations rather than retain them as a congestion hedge. For LSEs, allocated and auctioned CRRs can have powerful commercial and risk management value as financial instruments; CRRs in well-designed markets are transparent, can be easily priced and monetized,

¹ This revised proposal treats CAISO firm rights as subservient to OATT NITS and PTP rights in two obvious ways. 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. 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.

are easily tradable, and can be used as collateral. Most importantly, LSEs can rely on CRRs to hedge the delivery of supply from contracted resources. But none of these public policy benefits to LSEs is possible when the financial integrity of the CRR product is so compromised, as it is and has been in the CAISO market. Indeed, financial integrity of the CRR product has significant market design benefit for LSEs, allowing LSEs to treat owned CRRs as a financial instrument and an asset with forward value, rather than an uncertain allocation of congestion rent residuals.

Solving the congestion revenue inadequacy problem should be a top priority for CAISO staff and stakeholders. In the stakeholder process, CAISO has identified loop flow from external areas as a significant cause of CRR underfunding which brings the issue around full circle to defining firm rights of CAISO and non-CAISO participants, including those in EDAM, regarding usage of the CAISO transmission network. Addressing this issue is likely to be the solution both for improving CAISO underfunding and also to define an equitable and non-discriminatory approach to congestion allocation in the EDAM which does not exacerbate CRR revenue inadequacy.