Comments on Extended Day-Ahead Market Congestion Revenue Allocation Draft Final Proposal - April 16, 2025

Department of Market Monitoring

May 6, 2025

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Extended Day-Ahead Market Congestion Revenue Allocation Draft Final Proposal*.¹

I. Comments on Draft Final Proposal

Summary

The current FERC approved EDAM design would allocate congestion revenue to the balancing authority area (BAA) where the transmission constraint creating the congestion is located. Based on the EDAM stakeholder process, DMM understood that the rent allocation in the approved EDAM design was intended to be transitional in nature. Developing an allocation that is efficient and equitable is very complex. EDAM was meant to begin with a workable allocation while stakeholders would continue to develop an allocation for the long-term.

The draft final proposal presents a potential alternative congestion rent allocation method to use on a transitional basis. The alternative method would allocate the rent like the current FERC approved EDAM design, except that rent associated with balanced self-schedules on long-term firm and Network Integration Transmission Service (NITS) rights would be allocated to the EDAM BAA where the energy is scheduled, rather than where the constraint is located.

The allocation in the draft final proposal may be a reasonable alternative transitional measure. As discussed later in these comments, the rule changes under the draft final proposal may create economic incentives for significant inefficient self-scheduling of resources. While this could reduce the benefits from managing congestion over an expanded EDAM footprint relative to the currently approved allocation, there should still be significant benefits from an expanded market relative to the current pre-EDAM market. Enhancing the EDAM design to provide incentives to submit economic bids rather than self-schedules should be a high priority once EDAM is implemented and begins to expand.

The actual difference between using one allocation or another in terms of settlement and market performance can only be accurately assessed once EDAM is implemented. Regardless of which approach is adopted initially, the ISO should closely assess the differences, keep stakeholders informed, and be prepared to develop other transitional and longer-term options. As noted in numerous filings on this issue, the most efficient longer-term approach would be one that is decoupled from scheduling. Long-term options may include, for example, flow entitlements and/or financial approaches.

Table 1 at the end of Section I of these comments compares allocations for the current pre-EDAM market, the approved EDAM design, the straw proposal design, and the draft final proposal design.

¹ Extended Day Ahead Market Congestion Revenue Allocation Draft Final Proposal, California ISO, April 16, 2025: <u>https://stakeholdercenter.caiso.com/InitiativeDocuments/Draft-Final-Proposal-EDAM-Congestion-Revenue-Allocation-April-16-2025.pdf</u>

DMM's comments on the straw proposal provide more detailed descriptions of the table categories.² While the change outlined in the draft final proposal may create increased incentives to self-schedule that could reduce market benefits relative to the approved EDAM design, the implementation of EDAM with this allocation will still create market benefits relative to the current pre-EDAM market.

Self-scheduling issues

As highlighted in detail at the May 2 Market Surveillance Committee (MSC) meeting, the rule changes included in the draft final proposal may create economic incentives for significant inefficient self-scheduling of resources relative to the approved EDAM design. DMM previously commented that the initial straw proposal would also create incentives for self-scheduling.³ While the self-scheduling incentives of the draft final proposal do not appear significantly different than those created by the straw proposal, DMM initially envisioned that, in practice, this would be limited to import and export schedules that were effectively wheeling power through EDAM areas. However, the discussions at the MSC meeting raised greater awareness of this issue. Based on ISO presentations and discussions, it appears the incentives to self-schedule may apply to a much broader set of resources, including resources of load serving entities in each area that utilize Network Integration Transmission Service (NITS). To better assess this risk and how it might be mitigated, it would be very helpful if the ISO could perform some assessment of the potential magnitude of transmission rights that would be eligible for the refund of congestion costs under the proposal.

Transitional nature and "sunsetting" of the draft final proposal allocation

The congestion revenue allocation in the draft final proposal is meant to be transitional and "sunset" after three years. The ISO has been clear that they will continue working on a longer-term allocation, and that they intend to replace the draft final proposal allocation within three years. However, it is unclear what would happen if a replacement was not implemented by the end of the three years. Would the proposal actually "sunset", so that the allocation reverts to the currently approved EDAM design? Or would the draft final proposal allocation continue to stay in effect? The ISO should clarify this point.

Opting in and out of proposed allocation to avoid counterflow payment "claw backs"

To be eligible for the proposed congestion rent allocation, holders of firm rights outside the CAISO BAA would be required to submit balanced self-schedules and a contract reference number (CRN). If the energy is not self-scheduled or a CRN is not submitted for an hour, the schedules would not receive a congestion rent allocation. After the local BAA passes the allocation to the firm rights holder, the allocation will fully offset the congestion costs associated with binding constraints in other EDAM BAAs for the firm rights holder.

In cases where schedules on the firm rights provide counterflow to CAISO constraints, the rent allocation would actually be a charge that offsets the counterflow payments the schedule receives in the market. In cases where schedules on the scheduling of firm rights create provide counterflow to CAISO constraints, the rent allocation would actually be a charge that offsets the counterflow payments the

² Comments on Extended Day-Ahead Market Congestion Rent Allocation Straw Proposal, Department of Market Monitoring April 7, 2025: <u>https://www.caiso.com/documents/dmm-comments-on-edam-congestion-revenue-allocation-mar-17-2025-issue-paper-apr-07-2025.pdf</u>

³ Ibid.

schedule receives in the market. A firm rights holder could avoid this charge and keep their counterflow payments by simply not submitting a CRN for hours in which they will be net counterflow.

Firm rights holders will have an incentive to opt into the allocation to avoid charges by submitting a CRN when they think they will create flows, but will have an incentive to opt out by not submitting a CRN when they think their schedules will create counterflows.

The ISO has clarified that rights holders can opt to not submit a CRN when they think schedules will create counterflows flows for which they may receive congestion payments, and that this will be allowable under EDAM market rules. However, DMM notes that DMM would not view it as acceptable to utilize circular type schedules to receive such congestion payments while avoiding congestion charges. For example, this could involve submitting a CRN for one set of schedules in the congested direction, while also submitting an offsetting (or circular) set of schedules in the counterflow direction without a CRN.

Table 1. Comparison of pre-EDAM market, approved EDAM design, and alternative allocation approaches

	Current (pre-EDAM)	Approved EDAM design	Initial straw proposal	Draft final proposal
Other BAA flow	Available day-ahead market	Improved flow modeling from EDAM	Same as approved EDAM design.	Same as approved EDAM design.
modeling	transmission reduced by	BAAs in day-ahead market.		
	estimated flows from other	Non-EDAM area flows estimated as in		
	BAAs.	pre-EDAM.		
Congestion	Day-ahead congestion	Day-ahead congestion managed by	Efficiency relative to approved	Efficiency relative to approved EDAM
management	managed by re-dispatching	re-dispatching schedules inside CAISO	EDAM design reduced to extent	design reduced to extent proposal may
	schedules <u>inside ISO.</u>	and other EDAM BAAs.	proposal may lead to increased	lead to increased incentives to self-
		More efficient congestion	incentives to self-schedule. Still	schedule. Still more efficient than pre-
		management in all EDAM BAAs.	more efficient than pre-EDAM.	EDAM.
Collection and	Congestion charges <u>not</u>	Congestion charges are collected for	Congestion charges are collected	Same as approved EDAM design, except
allocation of	<u>collected</u> for modeled flow on	modeled flow on an EDAM BAA's	for modeled flow on an EDAM	congestion charges from balanced self-
congestion	CAISO constraints from	constraints from schedules in other	BAA's constraints from schedules in	schedules on firm and NITS rights
charges	schedules in other BAAs.	EDAM BAAs. All revenues allocated	other EDAM BAAs. All revenues	allocated to EDAM BAA where
		to BAA where constraint is located.	allocated to BAA where schedules	scheduled. Same as approved EDAM
			originate.	design, except congestion charges from
		BAAs do not receive congestion		<u>balanced self-</u> schedules on <u>by firm</u> and
		revenue for flows from non-EDAM	BAAs do not receive congestion	NITS rights allocated to EDAM BAA
		BAAs. Same as with pre-EDAM.	revenue for flows from non-EDAM	where scheduled.
			BAAs. Same as with pre-EDAM.	
				Congestion revenues split between
				BAA where congestion occurs and BAAs
				in which self-schedules by firm rights
				holders creating congestion in other
				BAAs originate.
Impact on	Unsettled flows from other	Flows from other EDAM BAAs create	Same as current pre-EDAM design.	Rent from congestion created by other
CAISO CRR	BAAs create no revenue to	revenues to pay CRR holders. Can		EDAM BAA flows available to pay CRRs,
holders	pay CRRs. Contributes to CRR	decrease revenue inadequacy.		except rent from self-scheduled firm
	revenue inadequacy.			and NITS rights. May decrease revenue
				inadequacy, but less than approved
Impact on	Schedules not charged for	Schedules charged for congestion	Same as current pre-EDAM design	Same as current pre-FDAM design
transmission	congestion impacts in other	impacts in other FDAM BAAs (receive	Balanced self-schedules with CRN	Balanced self-schedules with CRN not
rights holders	BAAs (receive complete	partial hedge)	not charged for congestion impacts	charged for congestion impacts in other
outside CAISO	hedge)		in other BAAs (receive complete	BAAs (receive complete hedge)
			hedge)	

II. Comments on Congestion Revenue Rights Settlement under EDAM

Overview

In presentations to stakeholders and the MSC, ISO staff have indicated they are proposing to settle congestion revenue rights (CRRs) in the CAISO in a manner that would pay CRR holders for congestion caused by schedules in other EDAM areas, for which the CAISO will not collect or retain congestion revenues. This approach would require funding out of the congestion revenues that would otherwise be used to more fully fund other CRRs or be refunded to transmission ratepayers. This is inconsistent with how DMM expected CRRs to be settled under EDAM.

ISO staff have indicated this issue will be subject to a separate stakeholder process. DMM agrees that this issue is separable from the scope of the draft final proposal, and notes that the issue of how CRRs are settled under EDAM would exist whether or not the draft final proposal is adopted. However, to provide further clarity on this issue for stakeholders, DMM is including this separate section in these comments, which provides a description of this issue with illustrative examples.

Congestion revenue rights settlement

DMM's understanding of the settlement of CRRs coming out of the EDAM stakeholder process was:

CRRs would be paid for congestion on CAISO constraints, up to the total amount of congestion rent collected by CAISO (whether rent is from CAISO schedules or non-CAISO schedules). CRRs would not be paid for non-CAISO constraints because no rents are collected by the CAISO BAA.

DMM now understands the ISO's proposed implementation of the CRR settlement is:

CRRs would be paid for congestion on all constraints, including non-CAISO constraints, up to the total amount of congestion rent *from schedules in the CAISO BAA*, even if the CAISO BAA does not collect that congestion rent. Payments for non-CAISO constraints would draw on the balancing account. Rent on CAISO constraints from non-CAISO schedules would not be used to settle CRRs and instead would be placed in balancing account.

Below we provide simple examples to illustrate how CRRs would be settled under DMM's previous understanding, and under DMM's current understanding of the ISO's proposed implementation of the CRR settlement. These examples assume the following:

- 1. No firm OATT rights scheduled.
- 2. Only one CRR of 1 MW. One can also view each constraint as being a separate 1 MW CRRs to consider potential settlement shifts between CRRs.
- 3. Rent from schedules on each constraint equals the notional value of the CRR (for pre-EDAM case the rent plus the value of unsettled flow equals the notional value of the CRR).

DMM looks forward to further clarification and discussion of how CRRs will be settled under EDAM.

Examples of DMM's previous understanding of CRR settlement under EDAM

CASE A1

Pre-EDAM (flows from non-CAISO scheds are unsettled)

	Notional	Rent from	Scheds in:	Rent Allo	ocation to:	CRR	Net CRR		Balancing
	CRR Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint	\$20	\$15	\$5	\$15		(\$5)	\$15	Rent	\$15
Non-CAISO constraint								CRR Pmts	(\$15)
All Constraints	\$20			\$15	\$0	(\$5)	\$15	Balance	\$0

CASE A2

EDAM with only CAISO constraint binding

	Notional	Rent from	Scheds in:	Rent Allo	ocation to:	CRR	Net CRR		Balancing
	Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint	\$20	\$15	\$5	\$20		\$0	\$20	Rent	\$20
Non-CAISO constraint								CRR Pmts	(\$20)
All Constraints	\$20			\$20	\$0	\$0	\$20	Balance	\$0

CASE A3

EDAM with only non-CAISO constraint binding

	Notional	Rent from	Scheds in:	Rent Allo	ocation to:	CRR	Net CRR		Balancing
	Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint				\$0		\$0	\$0	Rent	\$0
Non-CAISO constraint	\$6	\$3	\$3		\$6	(\$6)	\$0	CRR Pmts	\$0
All Constraints	\$6			\$0	\$6	(\$6)	\$0	Balance	\$0

CASE A4

EDAM with both CAISO and non-CAISO constraint binding

				•					
	Notional	Rent from	Scheds in:	Rent Allo	ocation to:	CRR	Net CRR		Balancing
	Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint	\$20	\$15	\$5	\$20		\$0	\$20	Rent	\$20
Non-CAISO constraint	\$6	\$3	\$3		\$6	(\$6)	\$0	CRR Pmts	(\$20)
All Constraints	\$26			\$20	\$6	(\$6)	\$20	Balance	\$0

CASE A5

EDAM with both CAISO and non-CAISO constraint binding alternate distribution of rent source schedules

	Notional	Rent from	Scheds in:	Rent Allo	ocation to:	CRR	Net CRR		Balancing
	Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint	\$20	\$19	\$1	\$20		\$0	\$20	Rent	\$20
Non-CAISO constraint	\$6	\$5	\$1		\$6	(\$6)	\$0	CRR Pmts	(\$20)
All Constraints	\$26			\$20	\$6	(\$6)	\$20	Balance	\$0

Examples of DMM's current understanding of ISO's proposed CRR settlement under EDAM

CASE B1

Pre-EDAM (flows from non-CAISO scheds are unsettled)

	Notional	Rent from	Scheds in:	Rent Allo	ocation to:	CRR	Net CRR		Balancing
	CRR Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint	\$20	\$15	\$5	\$15		(\$5)	\$15	Rent	\$15
Non-CAISO constraint								CRR Pmts	(\$15)
All Constraints	\$20			\$15	\$0	(\$5)	\$15	Balance	\$0

CASE B2

EDAM with only CAISO constraint binding

	Notional	Rent from	Scheds in:	Rent Allo	ocation to:	CRR	Net CRR		Balancing
	Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint	\$20	\$15	\$5	\$20		(\$5)	\$15	Rent	\$20
Non-CAISO constraint						\$0	\$0	CRR Pmts	(\$15)
All Constraints	\$20			\$20	\$0	(\$5)	\$15	Balance	\$5

CASE B3

EDAM with only non-CAISO constraint binding

	Notional	Rent from	Scheds in:	Rent Allo	ocation to:	CRR	Net CRR		Balancing
	Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint						\$0	\$0	Rent	\$0
Non-CAISO constraint	\$6	\$3	\$3		\$6	(\$3)	\$3	CRR Pmts	(\$3)
All Constraints	\$6			\$0	\$6	(\$3)	\$3	Balance	(\$3)

CASE B4

EDAM with non-CAISO constraint binding

	Notional	Rent from	Scheds in:	Rent Allo	ocation to:	CRR	Net CRR		Balancing
	Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint	\$20	\$15	\$5	\$20		(\$5)	\$15	Rent	\$20
Non-CAISO constraint	\$6	\$3	\$3		\$6	(\$3)	\$3	CRR Pmts	(\$18)
All Constraints	\$26			\$20	\$6	(\$8)	\$18	Balance	\$2

CASE B5

EDAM with both CAISO and non-CAISO constraint binding alternate distribution of rent source schedules

	Notional	Rent from	Scheds in:	Rent Allocation to:		CRR	Net CRR		Balancing
	Value	CAISO	NotCAISO	CAISO	NotCAISO	Offset	Payment		Account
CAISO constraint	\$20	\$19	\$1	\$20		(\$1)	\$19	Rent	\$20
Non-CAISO constraint	\$6	\$5	\$1		\$6	(\$1)	\$5	CRR Pmts	(\$24)
All Constraints	\$26			\$20	\$6	(\$2)	\$24	Balance	(\$4)