Comments on Extended Day-Ahead Market Congestion Revenue Allocation Revised Draft Final Proposal - May 19, 2025

Department of Market Monitoring

June 2, 2025

Summary

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

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. The revised draft final proposal presents an 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. DMM believes the allocation in the revised draft final proposal is an acceptable alternative transitional measure.

As discussed later in these comments, the proposed rule changes under the revised draft final proposal may create economic incentives for 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. The ISO has provided data showing there is reasonable hope that the potential for inefficient self-scheduling would be limited in the PacifiCorp BAAs.

The revised draft final proposal addresses concerns raised by some stakeholders in response to the prior straw proposal, related to allocation of counterflow congestion revenue. However, the draft final proposal removes the possibility that balanced economic schedules on NITS rights could receive congestion rent from parallel flows. This feature is consistent with the approved EDAM design but represents a change from the prior straw proposal.

In response to stakeholder concerns about this change and to address self-scheduling incentives, the ISO proposes to pursue another change within EDAM's first year of operation that would extend the proposed congestion rent allocation to cleared balanced schedules that submitted price-based bids. DMM notes that this change may warrant further discussion, as it might spread incentives that result in inefficient scheduling to resources submitting price-based bids.

Additional data and experience from actual EDAM operations will help inform stakeholders for future design changes. DMM recommends the ISO continue to work toward a long-term approach that

[1] *Extended Day Ahead Market Congestion Revenue Allocation Revised Draft Final Proposal*, California ISO, May 19, 2025: https://stakeholdercenter.caiso.com/InitiativeDocuments/Revised%20Draft%20Final%20Proposal%20-%20EDAM%20Congestion%20Revenue%20Allocation%20-%20May%2019%202025.pdf

decouples congestion hedging from resource scheduling. Under any transitional approach, DMM will monitor and report on the congestion rent allocation and scheduling within EDAM.

Comments

DMM believes the allocation in the revised draft final proposal is a reasonable alternative transitional measure. While the changes outlined in the revised 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.

The sub-sections below highlight some points for consideration when evaluating the revised final proposal. Table 1 at the end of these comments compares allocations for the current pre-EDAM market, the approved EDAM design, the straw proposal design, and the revised draft final proposal design. DMM's comments on the straw proposal provide more detailed descriptions of the table categories.[2]

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—and also in the revised 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]

DMM initially envisioned that, in practice, self-scheduling incentives would be limited primarily to import and export schedules that were wheeling power through EDAM areas. However, 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).

In response to requests by DMM and other stakeholders, the ISO provided data on the distribution of firm rights holders in the PacifiCorp BAAs. According to the ISO, about 88 percent of eligible rights, including about 95 percent of NITS rights, are held by PacifiCorp merchants. Based on this data and public statements by PacifiCorp, the ISO believes the total amount of rights that would self-schedule in order to receive congestion rent would likely be limited. As the ISO states:

> *PacifiCorp has publicly stated that the economic dispatch and commitment of resources that result from economic bidding in the market will create significant customer benefits. Additionally, PacifiCorp has stated that it believes the risk of congestion costs does not outweigh the benefits of economic bidding. With this context, it is assumed that PacifiCorp's market participation will not be driven solely by the ability to self-schedule the exercise of transmission rights to derive a congestion hedge.*[4]

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[2] *Comments on Extended Day-Ahead Market Congestion Revenue Allocation Issue Paper*, Department of Market Monitoring, April 7, 2025: https://www.caiso.com/documents/dmm-comments-on-edam-congestion-revenue-allocation-mar-17-2025-issue-paper-apr-07-2025.pdf

[3] Ibid.

[4] Revised Draft Final Proposal p 19

DMM agrees these points provide some reassurance that self-scheduling for the purposes of parallel flow congestion hedging may be limited in the PacifiCorp BAAs. However, such data and statements should not take the place of a more efficient market design that will ultimately extend across multiple balancing areas.

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

In response to stakeholder comments and questions on whether the approach described in the revised draft final proposal will sunset in three years or not, the ISO stated:

> *The ISO and market participants will continue to work together, through stakeholder working groups, to evaluate and consider a spectrum of potential near-term enhancements and long-term congestion revenue allocation or congestion hedging mechanisms that could be considered after the launch of EDAM.* [5]

DMM understands this to mean that the proposal does not have an explicit sunset provision and that the proposed allocation will continue unless and until replaced by future design changes.

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 scheduling of 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. 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. Thus, firm rights holders will have an incentive to opt in to 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 and expected under EDAM market rules. However, DMM notes that DMM would not view it as acceptable to utilize various types of circular 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.

[5] Revised Draft Final Proposal p 28

Recommended direction for long-term approach

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. However, DMM recommends the ISO continue to work toward a long-term approach that decouples congestion hedging from resource scheduling. As noted in numerous filings on this issue, the most efficient longer-term approach would be one that is decoupled from bidding and scheduling. For example, long-term options may include flow entitlements and/or financial approaches.

The ISO suggested in the revised draft final proposal that a near-term change could be extending the proposed rent allocation to cleared balanced schedules that submitted price-based bids, with the aim of mitigating incentives for inefficient self-scheduling. This near-term change within EDAM's first year of operation is also intended to address stakeholder concerns that balanced economic schedules would not be able to receive congestion rent from parallel flows. DMM notes that this change might spread incentives that result in inefficient scheduling to resources submitting price-based bids.

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. DMM will also monitor and report on the congestion rent allocation and scheduling within the EDAM. The additional data and experience from actual EDAM operations will help inform stakeholders for future design changes.

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

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