

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System)
Operator Corporation)**

Docket No. ER25-2637-000

**COMMENTS OF THE DEPARTMENT OF MARKET MONITORING
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. §§385.212, 385.214, the Department of Market Monitoring (“DMM”), acting in its capacity as the Independent Market Monitor for the California Independent System Operator Corporation (“CAISO”), submits these comments in the above-captioned proceeding.

I. SUMMARY

In this filing, the CAISO proposes to modify the allocation of congestion revenues among balancing areas participating in the Extended Day-Ahead Market (EDAM), resulting in a portion of day-ahead parallel flow congestion revenues being allocated to the EDAM balancing area where market participants paid prices that include those congestion costs, rather than to the balancing area where the constraint is located.

DMM views CAISO’s proposed tariff revisions as establishing a reasonable alternative transitional measure to allocation of EDAM congestion revenues. While the proposal may create increased incentives to self-schedule that would reduce market efficiency 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.

DMM supports the CAISO's commitment to work with stakeholders to continue to develop longer-term and more durable congestion rent allocation rules to replace the allocation proposed in this filing.

II. COMMENTS

Self-scheduling issues

As highlighted in detail by DMM, CAISO's Market Surveillance Committee (MSC), and the Western Energy Markets (WEM) Governing Body Market Expert, the tariff changes proposed by the CAISO in this filing may create economic incentives for significant inefficient self-scheduling of resources relative to the Commission-approved EDAM design.

In earlier stages of the CAISO stakeholder process, 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, based on CAISO presentations and discussions at the MSC meeting held May 2, 2025, 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.

In response to requests by DMM and other stakeholders, CAISO provided data on the distribution of firm rights holders in the PacifiCorp balancing areas. According to CAISO, about 88 percent of eligible rights—including about 95 percent of network integration transmission service—are held by PacifiCorp Merchant. Based on this data and public statements by PacifiCorp, CAISO believes the total amount of rights that would

self-schedule in order to receive congestion rent would likely be limited. As CAISO states:¹

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.

DMM agrees these points provide some assurance that self-scheduling for the purposes of parallel flow congestion hedging may be limited in the PacifiCorp balancing areas. However, such data and statements should not take the place of a more efficient market design that will ultimately extend across multiple balancing areas. DMM recommends CAISO immediately begin work on a long term solution to address such self-scheduling incentives more broadly, by decoupling congestion rent allocation from cleared schedule quantities.

Opting in and out of allocation to avoid counterflow payment “claw backs”

To be eligible for the parallel flow congestion rent allocation described in CAISO's proposed tariff changes, holders of firm rights in non-CAISO EDAM balancing areas would be required to submit balanced self-schedules and a contract reference number. After the local balancing area passes the allocation to the firm rights holder, the allocation will fully offset the firm rights holder's congestion costs associated with binding constraints in other EDAM balancing areas. If the energy is not self-scheduled or a contract reference

¹ *Extended Day-Ahead Market Congestion Revenue Allocation Revised Draft Final Proposal*, May 19, 2025, p 19: <https://stakeholdercenter.caiso.com/InitiativeDocuments/Revised-Draft-Final-Proposal-EDAM-Congestion-Revenue-Allocation-May-19-2025.pdf>

number is not submitted for an hour, the schedules would not receive an allocation of congestion rent.

In cases where scheduling of firm rights provide counterflow to constraints in another EDAM balancing area, 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 contract reference number 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 contract reference number when they think they will create flows, but will have an incentive to opt out by not submitting a contract reference number when they think their schedules will create counterflows.

CAISO staff have clarified that rights holders can opt to not submit a contract reference number when they think schedules will create counterflows for which they may receive congestion payments, and that this will be allowable under EDAM market rules. However, 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 contract reference number 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 contract reference number.

Transitional nature and sunseting of the proposed allocation

In response to earlier stakeholder comments and questions on whether the approach described in CAISO's filing will sunset at a specific time, CAISO 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.

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.

Recommended direction for longer-term approach

A well-designed congestion rent allocation would not create the inefficiencies of linking payments to cleared energy schedules. As noted in numerous filings and comments on this issue, the most efficient longer-term approach would be one that is decoupled from bidding and scheduling. For example, as highlighted by CAISO's MSC, long-term options may include flow entitlements and/or allocating financial rights.

Regardless of which approach is adopted initially, CAISO 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, impacts of the allocation on CRRs, and scheduling within the EDAM. DMM will also monitor for potential uneconomic self-scheduling and for entities inflating payments by strategically submitting self-schedules and contact reference numbers. The additional data and experience from actual EDAM operations will help inform stakeholders for future design changes.

III. CONCLUSION

DMM views the CAISO's proposal in this filing as a reasonable alternative transitional measure to allocation of EDAM congestion revenues. Creating a more

efficient and durable congestion rent allocation not tied to cleared market schedules should be a priority, particularly as new balancing areas join the EDAM.

Respectfully submitted,

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Independent Market Monitor for the
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Dated: July 17, 2025

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California, this 17th day of July, 2025.

/s/ Aprille Girardot
Aprille Girardot