Comments on Extended Day-Ahead Market Congestion Revenue Allocation Phase 2 Design Working Group Meeting - July 28, 2026

Department of Market Monitoring

August 10, 2026

Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Extended Day-Ahead Market Congestion Revenue Allocation Phase 2 Design Working Group Meeting – July 28, 2026.*[1] At the working group meeting, the ISO described stakeholder feedback on the three design concepts:

- **Concept 1:** Allocating congestion revenue to all balanced schedules clearing the market that have qualifying open access transmission tariff (OATT) rights
- **Concept 2:** Financial entitlements
- **Concept 3:** Financial rights, equivalent to congestion revenue rights (CRRs), based on a simultaneous feasibility test with current allocated CRRs

The ISO summarized feedback on Concept 1 as being split but generally supportive for considering as a potential incremental improvement and bridge to a longer-term design. The ISO then described broad opposition to Concept 2 for basing allocations on historical use because flows could change significantly as the western grid changes. The ISO also described broad support for exploring Concept 3 as a long-term solution, though stakeholders and the ISO recognize this to be a substantial effort. During the rest of the meeting, the ISO then discussed Concepts 1 and 3, but not financial entitlements such as Concept 2.

DMM does not see Concept 1 as a potential incremental improvement or bridge to a longer-term solution. The Market Surveillance Committee (MSC), the Western Energy Market (WEM) Expert, and DMM have all pointed out that Concept 1 is a flawed design. Integrating OATT rights and CRRs into a common simultaneous feasibility test will take significant stakeholder effort and time. Therefore, for a near-term interim design, the ISO should consider addressing stakeholder concerns with the financial entitlements approach under Concept 2 rather than continue with allocations based on market schedules as under Concept 1.

Below we outline a relatively simple alternative financial entitlement approach meant to alleviate the concerns raised by stakeholders as an interim approach to bridge to a long-term solution.

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[1] *Extended Day-Ahead Market Congestion Revenue Allocation Phase 2 Design Working Group*, California ISO, May 11, 2026: https://stakeholdercenter.caiso.com/InitiativeDocuments/Presentation-Extended-Day-Ahead-Market-EDAM-Congestion-Revenue-Allocation-Phase-2-May-11-2026.pdf

Comments

Basing congestion rent allocations on cleared schedules is fundamentally flawed

Basing congestion rent allocations on schedules cleared by the market distorts bidding incentives, undermines locational pricing, and has the potential to adversely affect the ability of the market to properly function. The flawed design of approaches like Concept 1 has been pointed out by DMM, as well as the MSC and the WEM Market Expert.[2]

In their opinion on the current congestion revenue allocation (CRA) design, and referring to what is now called Concept 1, the MSC wrote:

> *We understand that the nature of these changes would be to extend the rebate of congestion charges on constraints located in other balancing areas to generation that is dispatched in accord with its firm transmission service, rather than self-scheduled.*
>
> *We believe that this is a bad design and a bad use of CAISO resources. We recommend that there should be a goal of eliminating the FP design* [the current CRA design] *and replacing it with a financial flow entitlement design prior to the time when BAAs in addition to PacifiCorp and Portland General join EDAM.*[3]

Similarly, the WEM Market Expert wrote:

> *While extending the congestion revenue allocation to market scheduled resources might at times reduce the self-scheduling incentive of the proposed rules for EDAM start-up, it would not remove it during times of significant congestion. And it is at times of significant congestion when self-scheduling would lead to the greatest losses in EDAM efficiency.*
>
> *Further, such a change could become embedded in the WEM with the unintended result of impeding desirable market enhancements in the future. For instance, it could be more difficult to convert existing OATT service to CRRs…*[4]

DMM agrees with these views expressed by the MSC and WEM Market Expert, and DMM does not view Concept 1 as an incremental improvement to the current design or as a bridge to a long-term design. Concept 1 would result in inefficient scheduling of a wide range of resources submitting price-based bids. Even if resources do not self-schedule, the fact that resources receive a full or partial rebate of congestion costs if scheduled will distort bidding incentives.

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[2] Memorandum to ISO Board of Governors and Western Energy Markets Governing Body, Department of Market Monitoring, June 12, 2025: https://www.caiso.com/documents/decision-on-edam-congestion-revenue-allocation-dmm-comments-june-2025.pdf

[3] *Opinion on Extended Day-Ahead Market (EDAM) Congestion Revenue Allocation*, James Bushnell, Scott M. Harvey, and Benjamin F. Hobbs, Market Surveillance Committee for the California ISO, June 16, 2025, p 18: https://www.caiso.com/documents/market-surveillance-committee-opinion-extended-day-ahead-market-congestion-revenue-allocation-jun-13-2025.pdf

[4] *Opinion on California ISO Final Proposal for EDAM Congestion Revenue Allocation*, Pope, Susan L., Western Energy Market Governing Body Market Expert, June 16, 2025, p 20: https://www.caiso.com/documents/wem-governing-body-market-expert-opinon-on-extended-day-ahead-market-congestion-revenue-allocation-jun-18-2025.pdf

The ISO should consider changes to financial entitlements that address stakeholder concerns

Financial entitlements that allocate congestion rent regardless of market clearing outcomes do not create the poor incentives that the current allocation creates, and that an allocation under Concept 1 would create. The ISO says the main concern with Concept 2 was basing financial entitlements on historical use because flows could change significantly as the western grid changes. Rather than using this as a reason to pivot to the flawed design under Concept 1, the ISO should work to address these concerns if it wants to create an interim allocation to bridge to a long-term design.

Possible ways to address concerns with financial entitlements

The ISO should continue to explore financial entitlement options and consider ways to address the concerns raised by stakeholders. For example, rather than basing financial entitlements on a single historical point, the ISO could update the entitlements on a regular basis. Regular updating could address concerns that the entitlements would become increasingly out of date as the western grid changes.

Another possible, relatively simple approach to addressing these stakeholder concerns would be creating financial entitlements defined not as rights to specific flowgates, but as sourcing at generation aggregations and sinking at load aggregations—like a CRR held by the balancing area. These would settle on the congestion price difference between the generation and load aggregations multiplied by megawatt quantities equal to a percentage of recent historic load or of forecasted load.[5]

These entitlements would update over time as conditions on the western grid change, because:

- The generation aggregations (DGAPs and Trade Hubs) use actual historic generation to weight prices, and these weights are updated annually. These weights will change as generation patterns change. The same is also true for weights in the load aggregations (ELAPs and DLAPs).
- The congestion prices will reflect the current transmission system, any changes to the transmission system would be accounted for.

While the cleared market schedules would affect the future weights, they would not affect the current rent allocation. Further, the effect on future weights from any hour or day would be relatively small. Therefore, we would not expect this to create meaningful incentives to alter bids submitted to the market. Stakeholders may also want to consider using aggregations created specifically for congestion rent allocation that are different than the current aggregations used in the market. For example, using aggregations that update weights at different times or that do not apply shift factor truncation to the weighted average shift factors used to calculate the congestion prices for the rent allocation.

The ISO and stakeholders would have to work out the specifics of such approaches. But DMM thinks this, or other financial entitlement approaches, would be a better path forward for creating an *interim* rent allocation to bridge to a long-term solution.

[5] More specifically for the congestion revenue allocation, it would settle on the portion of the congestion price difference from constraints in other balancing areas.