

# Memorandum

**To:** ISO Board of Governors

**From:** Eric Hildebrandt, Executive Director, Market Monitoring

**Date:** May 14, 2025

**Re:** Department of Market Monitoring report

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***This memorandum does not require ISO Board of Governors action.***

## EXECUTIVE SUMMARY

This memo provides comments by the Department of Market Monitoring (DMM) on Management's proposal for a *subscriber participating transmission owner (PTO) market scheduling option*.<sup>1</sup> DMM supports the Subscriber PTO model as an approach to incentivize new transmission, and deliver generation to help satisfy municipal, state, or federal energy policy requirements or directives outside of the scope of the transmission planning process. DMM generally supports the economic scheduling option proposed by Management, subject to monitoring of the volume of non-subscriber use and any related market impacts. DMM supports the proposed two-year period to monitor non-subscriber use, during which non-subscriber usage charges for imports will not apply.

DMM understands many stakeholders are concerned with how the non-subscriber usage rate costs associated with the Subscriber PTO model will affect California ratepayers, and whether gaming opportunities exist. DMM acknowledges these concerns, and supports the ISO's proposal to monitor non-subscriber usage on the SunZia transmission line after it is operational, and determine if a new policy initiative to re-examine the non-subscriber usage rate is necessary. DMM also intends to monitor for potential gaming activity or unintended market impacts of the proposed scheduling option.

## COMMENTS

The Subscriber PTO transmission development model was approved by the Federal Energy Regulatory Commission (FERC) in March 2024. This new model allows development of transmission outside of the ISO's transmission plan, and in physical locations outside the boundaries of the existing ISO balancing authority area that will be placed under the ISO's operational control. Costs associated with transmission developed under the Subscriber PTO model are borne by subscribers of the project instead of being incorporated into the ISO's transmission access charge. In exchange, subscribers of the project receive a

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<sup>1</sup> *Subscriber Participating TO Market Scheduling Option – Final Proposal*, California ISO, April 24, 2025: <https://stakeholdercenter.caiso.com/InitiativeDocuments/FinalProposal-SubscriberPTOMarketSchedulingOption-Apr232025.pdf>

scheduling entitlement and the ability to recover revenue associated with use by non-subscribers. The Subscriber PTO model allows for non-subscriber use of transmission developed under this model in exchange for a non-subscriber usage rate.

Subscribers scheduling on Subscriber PTO transmission were envisioned to use the ISO's framework for existing transmission contracts. However, the ISO identified some complexities and potential inefficiencies with application of the existing transmission contract model in this context. The Subscriber PTO market scheduling option initiative sought to address these issues by creating an alternative option for scheduling on subscriber PTO transmission through economic bids and conversion of subscriber existing transmission contract rights to congestion revenue right options.

Throughout this initiative, a number of stakeholders raised concerns about higher levels of non-subscriber use, impacts of non-subscriber use charges on ISO transmission ratepayers, and potential gaming scenarios. While DMM acknowledges these concerns and plans to monitor non-subscriber use of Subscriber PTO transmission and any related market impacts, DMM generally supports the economic scheduling option proposed by Management. DMM also supports the proposal of a two-year monitoring period during which non-subscriber usage charges for imports will not apply, and the ISO's indicated willingness to revisit the non-subscriber usage rate design in the future if necessary.

### ***Impacts on optimization and pricing***

The non-subscriber usage rate (NSUR) represents an additional transmission cost to load associated with the delivery of a non-subscriber import. Although not paid directly by ISO load, non-subscriber usage rate payments to subscribers associated with imports serving ISO load would be funded from the pool of transmission access charge revenues collected from ISO load. Therefore, ISO load remains exposed to these charges when non-subscriber imports serve ISO load.

Some stakeholders have expressed concern that the exclusion of the NSUR from the market optimization when dispatching non-subscriber import bids may cause inefficient dispatch. If this additional cost of transmission from non-subscriber imports at subscriber intertie scheduling points is paid after the fact and not considered in dispatch decisions, these imports may appear cheaper to the optimization compared to other imports or internal ISO resources that may have higher energy costs, but for which ISO load does not incur any additional transmission charges. If the cost of the cleared non-subscriber import combined with the NSUR exceeds that of a higher cost resource not subject to the NSUR, the total cost to load may be higher than if the NSUR cost were included in the optimization.

Some stakeholders have suggested including the NSUR in non-subscriber import bids as a solution to this issue. Including the NSUR in non-subscriber import bids may improve the merit order of supply bids. However, this approach would have price formation consequences, since the NSUR would then be reflected in the locational marginal price. This may be inefficient from a price formation perspective, as this is not a marginal cost of

the importing resource. Further, if this cost is recovered from the pool of collected transmission access charge revenues paid by load, this approach may also cause load to incur the NSUR twice, since it may be incorporated into the locational marginal price, in addition to the monthly NSUR payment.

DMM agrees with the ISO's statement in the final proposal that any adder to be included in non-subscriber bids would require extensive stakeholder discussion and analysis of price formation impacts. DMM also agrees that such changes would require additional tariff revisions, raise additional implementation questions as to how such an adder could feasibly be included in bids (e.g., by the market participant or by the ISO), and generally would be beyond the scope of the current initiative. Because of these considerations and the potential for price formation impacts and inefficiencies, DMM supports the ISO's decision to not pursue this market design element.

***DMM will monitor for potential gaming and market impacts***

DMM has had conversations with stakeholders about concerns with potential gaming scenarios involving wheeling transactions on subscriber PTO scheduling points to increase non-subscriber usage rate charges. DMM appreciates these concerns, and will continue to assess the potential incentives and ability to engage in such behavior. DMM intends to closely monitor wheel transactions at Subscriber PTO scheduling points for any potential gaming activity or unintended market impacts. DMM will also monitor the level of non-subscriber usage on Subscriber PTO transmission more generally, to continue to evaluate the potential magnitude of impacts from issues and concerns raised by stakeholders throughout this initiative.