



WESTERN ENERGY MARKETS OBSERVATIONS

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Allocating congestion revenue in EDAM

After a couple of months of operations, the interim approach for allocating congestion revenue in the Extended Day Ahead Market is performing much as expected. The early results show that the method is working smoothly, without creating unintended incentives or large swings in congestion payments. The stakeholder process for evaluating refinements to this process is ongoing and the magnitude of congestion rent being allocated is within expectations.

Why congestion revenue matters

In a nodal electricity market, like the EDAM, prices reveal the value of energy at each location throughout the network, dispatching the cheapest generators while satisfying the physical limitations of the transmission grid and, thus, ensuring the lowest overall system cost. When the grid becomes constrained, those limits show up as “congestion” in prices. The revenue collected from congestion helps cover the cost of managing those constraints.

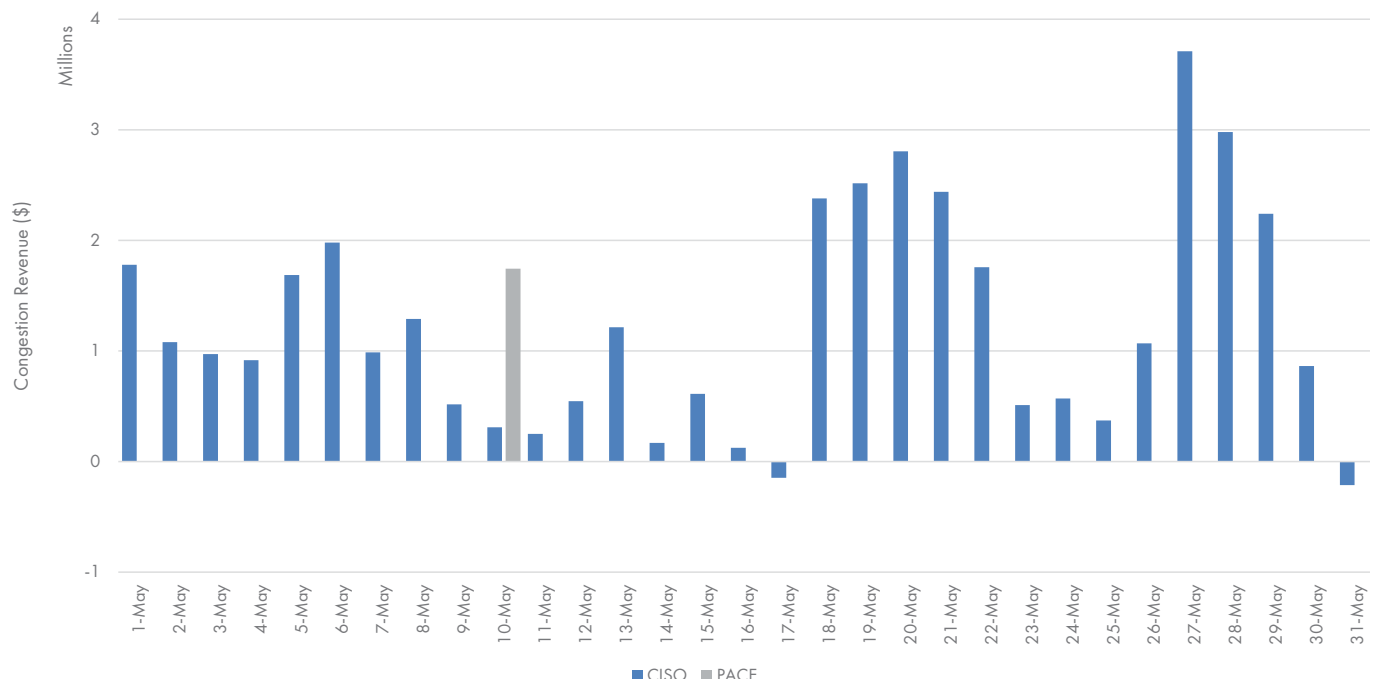
With EDAM now spanning multiple balancing areas, the market needs a fair way to distribute that congestion revenue across regions. With the congestion revenue allocation methodology implemented with day-1 of EDAM (aka phase 1), congestion rents associated with the exercise of qualifying transmission rights are redistributed to the area where these qualifying rights holders paid for the congestion. The interim method does this by returning the congestion revenue to the area where the constraint occurs, while also recognizing certain long standing transmission rights held under Open Access Transmission Tariffs (OATTs).

What we’ve seen so far

In the first two months, congestion mostly occurred inside the California ISO area, and the congestion revenue has reflected that. In May, total EDAM congestion rents were \$39.9 million, of which \$38.2 million was associated with congestion inside the California ISO area, with the remaining \$1.7 million with congestion inside PacifiCorp East.



Congestion revenues collected by balancing areas (million of dollars)



Concerns that the interim method might encourage market participants to self schedule simply to collect congestion revenue have not materialized. Self scheduling patterns have remained stable, and the amount of congestion revenue allocated under the interim rules has been modest.

Where the design goes next

The interim method was always intended as a bridge to a longer term solution. Stakeholders are now evaluating several refinements, including:

- **Expanding eligibility** so that more types of day ahead schedules—not just self schedules—can receive congestion revenue.
- **Using historical baselines** to ensure transmission rights are exercised in a way that reflects past practice.
- **Applying feasibility tests** to confirm that all rights can be used without overloading the grid.

Each of these ideas aims to balance fairness among EDAM participants, support efficient bidding behavior, and maintain reliable use of the transmission network.

The bigger picture

Congestion costs are a normal part of operating a regional electricity market. They reflect the physical reality of the grid and help ensure that the lowest cost resources serve demand across the entire EDAM footprint.

It is important to remember that, regardless of the approach to pricing, neighboring electric systems have impacts on each other's systems. Injections and withdrawals on one network may impact the flow of electricity on a neighboring transmission system because of parallel flow, electricity that takes different paths through the grid. This "unscheduled" electricity that shows up must be accounted for to avoiding overloading transmission lines.

Areas that use a nodal market for pricing and dispatch are faced with the challenge of incorporating parallel flows from neighboring areas within the market solution or managing parallel flows when they materialize in real-time. Either decision will affect prices.

Electric areas without a nodal market face a similar challenge, but without the explicit pricing effects. Regardless, the operator needs to determine if the parallel flow should be accounted for in the system dispatch ahead of the operating day or observed and managed, possibly through curtailment, during the operating timeline.

As EDAM continues to mature, the goal is to refine congestion revenue allocation in a way that supports transparency, equity, and lower overall system costs for everyone.