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Submitted to CAISO on November 22, 2022

### ***PPC Comments on CAISO's Draft Final Extended Day Ahead Market Proposal***

The Public Power Council<sup>1</sup> (PPC) is optimistic and encouraged in the potential to develop a day-ahead market that creates benefits for end use customers across the West. In order for any day-ahead market to achieve this goal, it must be well designed and broadly supported by a diverse set of Western stakeholders. PPC members are seeking a market which will allow them to enhance the service they provide their customers through increased economic benefits (both through allowing utilities access to lower cost power supply and by providing an opportunity to capture additional value of existing assets), additional integration of carbon free resources, and more efficient use of the region's transmission grid. In seeking these opportunities, PPC members also acknowledge that there are certain parameters which must be met by any organized market. It will be critical that any potential integrated market maintains reliability, facilitates BPA continuing to meet its statutory obligations, and is administered by a governance structure designed to treat all participants equitably.

PPC appreciates the efforts of CAISO staff to work diligently on this proposal for the past year and to answer stakeholder questions. We want to acknowledge the workload that staff has taken on in developing this proposal - including hosting working group meetings, regular stakeholder workshops, and being willing to follow up with stakeholders to discuss aspects of this proposal. Within the timeframe set out for this initiative, CAISO staff has made significant progress on vetting these issues.

At the same time, the process is moving quickly and there are areas where additional detail would be helpful in evaluating the proposal. This includes better understanding areas where the CAISO has declined to adopt stakeholder recommendations. Some of these instances are well documented in the proposal, while others are not specifically addressed. We also appreciate that CAISO staff has in some instances worked quickly to adopt changes which address concerns raised by stakeholders, but this has created a constantly evolving proposal – which can make it difficult to comment adequately on the proposal in its current state. In other words, PPC finds it challenging to comment on the EDAM structure in as much detail as we would like given that this is the draft final proposal, because elements of the proposal continue to evolve. We expect that some of the most recent developments are positive changes, but we

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<sup>1</sup> PPC, established in 1966, is an association that represents the vast majority of consumer-owned electric utilities across five states in the Pacific Northwest. PPC's mission is to preserve and enhance the benefits of the Federal Columbia River Power System operated by BPA for consumer-owned utilities. PPC's members pay roughly 70% of BPA's annual \$3.9M revenue requirement, in addition to owning their own generation and transmission facilities in the Northwest.

have not had sufficient time to fully vet some of these proposals given their highly complicated and technical nature. PPC is still considering some of these changes and their impact on our overall evaluation of the EDAM design.

With this in mind, we appreciate that the discussion with the EIM Governing Body and CAISO Board of Governors in December has been changed to a briefing, with a final decision to come in February. This should give stakeholders additional time to evaluate recent changes and for other related initiatives to progress to the point they can help inform decision-makers and stakeholders in their evaluations of the EDAM proposal.

As PPC has raised in its previous comments, other related stakeholder initiatives – including Day Ahead Market Enhancements, Price Formation, Transmission Service and Market Scheduling Priorities, and WEIM Resource Sufficiency Evaluation Enhancement will all impact how PPC and our members evaluate EDAM. CAISO should aim to align the decision on EDAM with the conclusion, or at least along with a fairly solidified proposal, of these initiatives.

Another critical piece for evaluating the viability of EDAM will be the governance for EDAM, which must be considered along with the market design as a package to inform the potential risk and benefits of participation in the market. As PPC reiterated in its most recent comments<sup>2</sup>-- the Governance Review Committee (GRC) has made and continues to pursue meaningful improvements to EDAM governance, but the California statutes underlying the governance structure retain a level of risk to potential market participants outside of California. PPC understands that there may be future conversations in the California legislature about the possibility of exploring a truly regionalized future for the CAISO market and we will be monitoring the progress of those discussions to inform our evaluation of EDAM.

PPC also reiterates the need for interoperability between EDAM and the Western Resource Adequacy Program (WRAP) to facilitate WRAP participants' potential participation in EDAM. BPA and PPC members have made significant investments in the WRAP program and will need additional information on how EDAM would treat WRAP capacity in order to inform their consideration of EDAM participation.

### *EDAM Participation Model*

The voluntary nature of EDAM is a critical component of the market design, and PPC supports EDAM remaining voluntary. We note that the current participation paradigm in EDAM restricts the “voluntary” choice to participate for those within EDAM BAAs, and limits direct participation of load in the market to only Balancing Authority Areas. LSEs within those BAAs will be required to settle with those BAAs on nearly all issues. Additionally, these LSEs have no option on whether they will participate in the market. The EDAM design eliminates the concept

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<sup>2</sup> PPC Comments on EDAM Governance Revised Proposal, <https://stakeholdercenter.caiso.com/Comments/AllComments/da41bf56-cc7d-40e4-9e63-de91cb83dd21#org-73c42ebc-be72-4e85-b5f7-97606cba45c0>

of “non-participating” resources so all resources, along with all load in a BAA that opts into participating in EDAM, will be required to participate. We encourage the CAISO to continue to explore additional ways to better facilitate direct participation in the market, through close coordination with EDAM Entity BAAs.

The draft final proposal introduced a new requirement that resources in the market are expected to have transmission service associated with their supply in order to participate in EDAM. While the draft final proposal indicates the transmission must be of at least one month in duration, PPC understands CAISO is now considering that daily or hourly transmission, purchased through an *after-the-fact* process, can meet this requirement. Generally, PPC agrees with the spirit of CAISO staff’s proposal to require transmission. Insulating market participants from large cost shifts and reducing free-rider ship are important goals to ensure EDAM participation benefits outweigh potential costs.

As discussed in previous comments, PPC believes the best way to support transmission providers’ continued cost recovery is an EDAM model that maintains or strengthens the incentive to purchase long term transmission by preserving and enhancing the benefits associated with long term transmission that rights holders experience today. PPC believes an EDAM model that fairly compensates long-term rights holders who have made long term commitments to pay for service and respects the priority of firm OATT service would lead to continued investment in OATT transmission to limit revenue shortfalls and maintain the benefits of hurdle free dispatch. Given that EDAM is an incremental step towards a more integrated market, it is appropriate to retain these incentives that allow potential EDAM entities to retain their long-term confidence and certainty of cost recovery, which has been a deterrent from advancing development of organized markets in the past.

PPC believes the draft final proposal has made some progress towards meeting this goal, such as allowing ETC/TOR functionality for PTP, but still has outstanding concerns. Particularly, the congestion rent allocation framework that allocates 100% of congestion on interties that connect to CAISO is inequitable and a troubling position for CAISO to take. PPC discussed our issues with this approach at length in our previous comments. PPC believes CAISO also needs to make assurances that the EDAM framework does not create operational challenges to those that choose not to participate in EDAM but rely on those rights to serve load or participate in alternative markets.

While PPC supports the spirit of changes made in the draft final proposal, it is unfortunate the new transmission requirement was introduced this late in the development process, leaving stakeholders little time to fully analyze its potential impacts. For example, BPA has raised important questions about how such a requirement would apply to BAAs that are “nested” within another EDAM BAA, noting that the current proposal would only require transmission to be purchased within the “nested” BAA leaving the surrounding BPA with no assurance of cost recovery. This structure may not address free riding on transmission service providers facilities that support significant volumes of “wheeling”. We request that CAISO address such a scenario

in the final proposal. PPC is also still working to understand the tradeoffs between cost recovery certainty beyond what is accomplished with the TPP revenue shortfall procedure and the potential for introducing transmission costs into the market dispatch. PPC believes there is still time to for additional dialogue on this new requirement and encourages CAISO to continue engaging stakeholders on this element of the EDAM proposal before a final decision is made in February.

### *Transmission Availability*

PPC supports the proposal to change the timeline for releasing pathway 2 transmission to 9 a.m. This change in the timeline will be helpful to transmission rights holders choosing how to utilize their rights over the next operating day.

PPC continues to have concerns about the EDAM Entities' ability to appropriately allocate congestion revenues received through Bucket 2, pathway 2 transmission with the tools and data currently available to them. PPC recommends CAISO directly settle all congestion or provide additional tools to facilitate and EDAM entity settling this congestion with transmission rights holders. CAISO should address what information would be made available to assist with this allocation in its next draft.

PPC is not convinced that assigning additional costs to entities that use their transmission after the day ahead market runs is consistent with "honoring" their OATT rights. If an entity is required to pay an additional charge to exercise their OATT rights, that undermines the concept that they are retaining their OATT rights in the first place. It is also unclear to PPC how this calculation would occur, and we have concerns that EDAM BAAs would not have adequate information to perform this calculation.

### *Resource Sufficiency Evaluation (RSE)*

PPC supports, in concept, the changes made in the most recent proposal regarding the Resource Sufficiency Evaluation for EDAM. We are still considering the specifics of these proposals and have several outstanding questions on how CAISO would implement them as described below. Additionally, the proposal does not replace the need for an accurate real-time RSE with failure consequences that effectively discourage "leaning" within the market. As PPC has stated in our comments in the WEIM Resource Sufficiency Evaluation Enhancements initiative, PPC has concerns about whether the objectives of the real-time RSE are being achieved. Improvements to the real-time RSE are necessary to better support the effective implementation of the EDAM RSE as current proposed.

The concept of a tiered failure approach as introduced in the draft final proposal is a positive development. This concept retains a consistent deterrent for "leaning" on other market participants for flexibility and capacity, while appropriately scaling failure consequences to reflect the impacts that an entities' insufficiency has on other market participants during a specific interval. While PPC is still considering the specifics of the proposed penalty prices, we

support the general concept advanced in the draft final proposal. While using bilateral trading hubs as a reference for developing charges for failing the RSE makes sense today, PPC has some concerns about the long-term use of bilateral trading hubs as a reference, due to the potential reduction in liquidity. CAISO should actively monitor liquidity to determine if it is sufficient for establishing penalty prices.

The other failure consequence included in the proposal is the potential for participants to be excluded from the pooled evaluation of EDAM Entities in the real-time RSE. Being excluded from the pool is only an effective penalty if the real-time RSE is accurate and has a meaningful failure consequence. As explained in PPC's most recent WEIM RSE Enhancements comments<sup>3</sup>, PPC continues to have concerns with that current failure consequences do not result in equitable "penalties" of failures among all participants. This should be addressed prior to implementing the EDAM RSE. These concerns assume that the current failure consequence continues to persist as a real-time failure outcome for some participants. At the November 14 stakeholder meeting, the CAISO staff's response addressing what happens if the EDAM pool fails suggested that assistance energy charges would be used, but PPC's understanding is that use of assistance energy is optional. We ask that CAISO explain in additional detail what would happen if the pool failed and some entities in that pool have not elected to rely on assistance energy.

In the draft final proposal, CAISO staff also introduced the net export constraint. In concept, the net export constraint appears to be a helpful tool which would allow a BAA to limit its risk of exporting needed supply through its participation in EDAM. While the concept is promising, PPC is still considering what this tool could mean for the benefits experienced through the market and whether there may be any unintended consequences from adopting a tool that could be so broadly applied as opposed to a more narrowly focused instrument such as Available Balancing Capacity (ABC) as is used in the EIM.

PPC requests additional information on the net export constraint concept, specifically:

- Will CAISO provide any guidance or restrictions on how the "confidence factors" and "additional margin" used to establish how these constraints are defined?
- How is CAISO planning on tracking and reporting on the use of this constraint to ensure there is no gaming associated with this new tool?
- Are there any equity concerns with variable use of these restrictions, particularly in periods where supply is tight?
- Why is CAISO proposing not to extend the use of ABC to EDAM? Will ABC continue to be a tool available in real-time?

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<sup>3</sup> PPC Comments on CAISO Resource Sufficiency Evaluation Enhancement Revised Final Proposal, <https://stakeholdercenter.caiso.com/Comments/AllComments/6433a96c-2463-47a5-8c4d-25538ddd6785#org-c420cffa-87c8-4c0e-bc4d-26045c446a8e>

### *External Resource Participation*

PPC supports the inclusion of external resource participation in the EDAM proposal. We would also request that CAISO address in its final proposal why external resources are allowed to bid at the CAISO BAA interties, but are required to be pseudo tied into EDAM BAAs for all other participants. This approach appears inequitable and provides CAISO with supply not available to other EDAM participants. We would like to reiterate our request that CAISO consider allowing participation for external resources that can be specified, even if they cannot be pseudo-tied in.

### *Convergence Bidding*

PPC understands why CAISO would make convergence bidding optional to EDAM Entities in their first year of participation and shares some of the concerns that might cause an entity not to opt in to convergence bidding – specifically that while participants in the EDAM footprint are gaining experience with EDAM participation, those experienced with convergence bidding could use that opportunity to exploit this inexperience for their own gain in a way that could negatively impact rate-payers within the EDAM footprint. Despite understanding why CAISO is providing the option, PPC still has some concerns about a “patchwork” of convergence bidding across the EDAM footprint resulting in additional opportunities for gaming and for creating additional seams that would prevent prices from efficiently converging. In the next draft, PPC requests that CAISO more specifically address how it plans to monitor convergence activity across the footprint in the first year, what results of that monitoring may necessitate action on behalf of the CAISO, and what actions the CAISO may take to reduce potential exposure for ratepayers in the footprint.

### *GHG Accounting*

PPC is still analyzing the specifics of the latest proposal for GHG accounting. Based on our current understanding, PPC shares the sentiment expressed by several stakeholders at the November 14 workshop that there are improvements necessary to provide stakeholders confidence that GHG will be accurately accounted for, resources will be appropriately dispatched, and that the GHG shadow price will be correctly set in a manner consistent with the policies developed by states within the potential EDAM footprint. PPC continues to be frustrated that the EDAM initiative was initially identified as the appropriate forum to improve CAISO’s EIM GHG accounting practices, but that in the EDAM GHG discussions, the need to implement quickly seems to have overshadowed the potential to fully consider other promising solutions such as the zonal model which was developed by stakeholders during the working group process. GHG accounting is a complicated issue, likely with no perfect solution, but PPC warns against adopting rules that do not send appropriate price signals for GHG, which could lead to under development of carbon free resources that are needed to help California and other states with carbon reduction goals meet their targets.

PPC appreciates the helpful examples provided by CAISO staff in the draft final proposal and in the November 14 workshop. These helped clarify some aspects of CAISO's proposal and the trade-offs associated with options that the CAISO is considering for implementing its proposal. As a general matter, the proposed design does not appear to provide transparent results that participants, stakeholders, and policy makers could easily review to evaluate the effectiveness of this design and to determine whether any "resource shuffling" is occurring. We request in the next draft that CAISO address how it is going to provide additional transparency into these results. For instance, the graphs provided on page 100 of the proposal demonstrate that there is significant "leakage" under CAISO's current EIM GHG accounting policies, but the information used to develop these charts is not available publicly. Is this something that will be tracked by CAISO staff or DMM in the future?

PPC is unconvinced that the current CAISO proposal will sufficiently reduce inaccurate deeming within the market. PPC's current understanding is that there may be times where an EDAM BAA is dispatching less in the IFM run than it was in the GHG market run and the BAA would still be deemed to be exporting the entire amount that was deemed in the GHG pass as delivered to the carbon zone for the purposes of GHG accounting. At the November 14 workshop, there was some discussion about "how far" entities would want to go to ensure that accurate GHG accounting is occurring, noting that there can be tradeoffs with creating higher costs within the GHG zone. CAISO staff characterized lower costs in the market as the "primary" objective during this discussion.

PPC continues to support well designed markets that result in lower costs to rate payers within the footprint; however, distorting market mechanics to achieve those results is not an acceptable approach. From PPC's perspectives there are multiple objectives which must be balanced in this market design, and in the long run, a market which balances these objectives will result in the optimal outcome for ratepayers in the footprint through lower rates, and through allowing states to achieve any carbon reduction goals they may set.

We understand that there are two goals which much be considered in this design – reduced costs to consumers and the accuracy of GHG accounting – and that in some instances those goals may be competing. PPC also acknowledges that there is likely not GHG design that will 100% accurately capture the carbon content of resources being dispatched to meet demand inside the carbon zones. That said, the market should be designed to send appropriate price signals to achieve the system mix that is desired. This is true whether the resources in question are needed to increase carbon free generation to meet carbon reduction goals, to maintain reliability by ensuring sufficient firm generation is available, or to develop sufficient flexible capacity to balance increasing amounts of variable energy resources – the market should be sending signals, through price formation, to incent investment in supply where and when it is needed.

PPC is concerned that the current market design is too focused on maintaining low costs in the short term, which could be sending poor price signals for longer term investments and

inadequately compensating those that are current supplying carbon free resources. These results end up negatively impacting ratepayers within the potential EDAM footprint. For example, suppliers of clean hydro like BPA and several PPC members with their own generation will not receive the appropriate value for their carbon free resources and thus will need to charge their customers higher rates, despite those customers making contributing toward the investment in carbon free resources. Additionally, California consumers, who believe that they are purchasing carbon free generation, may actually be being served with gas and coal resulting from the model's secondary dispatch.

PPC request that CAISO directly address in the next draft how its proposal helps states in the EDAM footprint meet their carbon reduction goals and provides confidence that it is doing so. The discussion at the November 14 meeting about the balancing of various objectives was helpful and CAISO should include some of that discussion in its next draft to explain how it landed at the current EDAM proposal on GHG accounting.

### *Conclusion*

PPC continues to appreciate the hard work of CAISO staff in the development of EDAM, as well as the high level of engagement from other stakeholders which has resulted several improvements in the proposal. Balancing the interests of entities across the West is a challenging endeavor and PPC will look to the EDAM proposal and the outcomes of related initiatives as an indication of the potential California and the rest of the West have to create a balanced market for the benefit of all participants.