

**COMMENTS OF THE STAFF OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION REGARDING THE  
FEBRUARY 11-12, 2020 EXTENDED DAY-AHEAD MARKET WORKSHOP**

\* \* \* \* \*

**March 4, 2020**

**Overview**

The Staff of the California Public Utilities Commission (“CPUC Staff”) appreciates this opportunity to provide comments on the California Independent System Operator Corporation’s (CAISO) February 11-12, 2020 Extended Day-Ahead Market (EDAM) workshop. The workshop covered the first bundle of topics in EDAM: resource sufficiency (RS) evaluation, transmission provision, and distribution of congestion rents. CPUC Staff has several questions about the topics presented and a few concerns regarding equitable treatment across market participants, potential market power, and consideration of California interests.

**Inequality and Market Power Concerns**

Throughout the workshop, CPUC Staff observed that there were several areas in which the Energy Imbalance Market (EIM) entities’ proposals would likely not work to establish a level playing field among all participating balancing authority areas (BAAs). It is important to establish a market design that does not afford inherent advantages to some parties, while putting others at greater risk—particularly when participation is voluntary for certain entities and required for others. In light of these inequality concerns, CPUC Staff requests clarity on the parameters of this proposed voluntary participation and the potential impacts to entities that are required to participate.

In addition, CPUC Staff requests that discussion of market power mitigation elements be integrated throughout this process in discussions and considerations for future proposals. For example, CPUC Staff is concerned not only that the value of firm transmission being advocated may be inflated, but also that the potential for certain EIM entities to withhold transmission may give rise to market power and reliability challenges. CPUC Staff requests that CAISO address these market power concerns in future stakeholder discussions and in any future proposal. Additionally, CPUC Staff would like CAISO to clarify how it plans to incorporate any system market power mechanism, developed in its current system market power initiative, into an extended day-ahead market (rather than its existing day-ahead market).

Lastly, we observed that there was a lack of discussion around how proposed changes would interface with California’s existing programs, such as the Resource Adequacy (RA) program, and how CAISO plans to optimize for the CAISO BAA while also serving as a multi-state operator. Extending the day-ahead market to EIM entities will have a significant impact on California entities that are required to participate in the market, as well as CPUC program rules ensuring that reliability goals are met.

We understand that these workshops are part of the beginning of the EDAM process; however, CPUC Staff believes that additional discussions relevant to California considerations are needed. Thus far, the EDAM stakeholder process has not addressed or offered insight into EDAM’s inherent value to California’s ratepayers, grid, and resource reliability. Can CAISO clearly highlight how California will benefit from EDAM? Specifically, CPUC Staff requests that CAISO provide analysis demonstrating the benefits that EDAM will bring to California load-serving entities (LSEs) and customers.

### **Additional Information and Analysis**

CPUC Staff would like to see additional information and analysis presented on transmission provision in this stakeholder process. We would like to better understand the landscape of transmission offerings outside of California, including what transmission rights exist across different BAAs (that currently participate in EIM and may participate in EDAM) and the rules and timelines for releasing these transmission rights to other entities. This would help stakeholders better understand how a potential resource sufficiency test in EDAM might work, as well as the different incentives transmission providers face within their jurisdictions. Could CAISO gather this information from BAAs that currently participate in EIM and make it available to stakeholders?

### **Outstanding Questions**

CPUC Staff requests that the following questions be addressed in subsequent EDAM proposals and workshops:

**Resource Sufficiency (RS) Evaluation:** The purpose of the resource sufficiency evaluation is to prevent any individual BAA from leaning inappropriately on other BAAs when they participate in the market. The EIM entities' presentation included a proposal for entities to submit a 24-hour non-binding operating plan prior to the day-ahead market run that would include information regarding the given BAA's resources and transmission capabilities.

1. How would a RS evaluation ensure that the information provided to the market operator is accurate and reliable? How is EDAM planning to accurately account (and not double count) for bilaterally contracted external resources in its proposed RS evaluation?
2. How would entities be able to provide relevant transmission information prior to the market optimization results?
3. What are the implications of some BAAs consistently exceeding their RS requirements and others simply meeting them? For example, if one BAA consistently comes in above its RS test requirements and other BAAs simply meet their RS requirements, would the latter BAAs always benefit from the former?
4. What will be the threshold for passing, or conversely, failing an RS evaluation?
5. What are the consequences of failing the RS evaluation?

**Transmission Provision:** The proposed EDAM design seeks to maximize efficient scheduling of energy and reserves, as well as incent transmission availability while maintaining voluntary participation. The EIM entities' presentation introduced three proposed "buckets" of EDAM transmission sources representing varying levels of firm contract rights, suggesting that the first two firmest "buckets" be used to enable transfers first at no hurdle rate, whereas the hurdle rate would serve as the limiting factor for usage of the third "bucket."

1. Is it accurate to interpret that all three proposed sources of EDAM transmission (i.e. the three "buckets") are expected to be firm? Please define 'firm' for each bucket.
2. How would EDAM ensure seamless transmission availability to support California grid reliability while maintaining voluntary participation? How can transparency and market power mitigation be ensured?
3. How will the proposed EDAM transmission plan affect transmission revenue requirements and transmission rates across California Investor-Owned Utilities (IOUs)?

Congestion Rents: As with the other issues discussed in this workshop, the distribution of congestion rents in EDAM is a significant design consideration. The workshop discussants raised several areas of complexity, including how to distribute rents (on a BAA level or a transmission customer level) and how to allocate rents to account for differences in the type of transmission provided to EDAM, transfer capabilities at interties, and the presence of hurdle rates. Several examples of ‘congestion value’ allocation were outlined in the afternoon of Day 2, including EIM’s current “all-or-nothing” approach in which 100% of congestion value is allocated to whichever side fills first; the 50/50 approach; or, the 3:1 approach.

1. How might congestion rents be allocated equitably and in such a way as to preclude potential gaming?

Modeling:

1. Currently in the EIM, CAISO imports/exports are modeled as injections at the intertie scheduling point, whereas EIM entities’ imports/exports are modeled at the source and sink. How does EDAM plan to reconcile this inconsistency to improve modeling and market accuracy?

**Conclusion**

CPUC Staff appreciates the opportunity to comment on the workshop and looks forward to continuing participation in the stakeholder process.