

**Comments of Powerex Corp. on
Extended Day-Ahead Market
Common Design Principles & Concepts**

Submitted by	Company	Date Submitted
Mike Benn 604.891.6074	Powerex Corp.	November 4, 2021

Powerex appreciates the opportunity to submit comments on the CAISO’s Extended Day-Ahead Market *Common Design Principles & Concepts* (“EDAM Concepts”) presented during the October 13, 2021 EDAM forum.

Powerex supports the development of the EDAM concept as one potential option for western stakeholders to evaluate, as they seek to determine the best alternative for participating in an organized day-ahead market in the west. In the early stages of this initiative, Powerex believes it is vital to focus on clearly identifying the key market design principles and topics, as well as the areas where there are significant gaps in the perspectives of stakeholders, which must be addressed. The questions provided below are intended to support the CAISO in providing this necessary clarity.

Governance

The EDAM forum recognized governance as a high-priority issue for numerous entities. The suggestion that an appropriate and acceptable governance approach would be pursued at a later date leaves the EDAM development process itself under the authority of the CAISO, utilizing its existing governance structure and mandate. Importantly, entities and ratepayers in the CAISO’s balancing authority area (“BAA”) are situated very differently from those of potential EDAM participants, particularly as it relates to decisions on numerous EDAM market design topics. EDAM market design proposals that may appear acceptable from the perspective of California ratepayers, including extending core design elements of the existing CAISO day-ahead market, may be highly problematic from the perspective of ratepayers elsewhere in the west.

Q1: Does the CAISO have suggestions on its approach to the EDAM development process that would provide external entities with confidence that the interests of their ratepayers will be adequately served throughout that process, including:

- In the development of straw proposals on each issue?
- In the changes that are, and are not, made in the revisions to straw proposals?
- In the approval process of the final straw proposal?

Resource Sufficiency

Powerex believes there are three distinct aspects to a workable resource sufficiency mechanism in the context of an EDAM:

1. Entities retain autonomy over forward resource planning and procurement (*i.e.*, resource sufficiency does not impinge upon each entity’s resource adequacy activities).

2. EDAM must include an accurate resource sufficiency evaluation, with consequences that are effective at preventing leaning.
3. EDAM participants, including the CAISO BAA, must commit to acting in good faith to undertake any additional supply procurement necessary to ensure they are consistently resource sufficient, prior to the EDAM timeframe.

Powerex recognizes that the first element is clearly incorporated in the EDAM Concepts.

With respect to the second element listed above—an accurate RSE and effective consequences for failure—Powerex notes that experience in the EIM is not encouraging. The EIM was also intended to not enable leaning, yet there is abundant evidence that the EIM Resource Sufficiency Evaluation is systemically inaccurate when applied to the CAISO BAA (enabling it to pass when it is resource insufficient), and that the consequences of failing the RSE have been ineffective at preventing the CAISO BAA from leaning. More concerning, the CAISO, its DMM, and certain California load-serving entities appear have taken varying positions on whether leaning should be tolerated, and whether consequences should merely discourage—but not prevent—such outcomes.

Q2: Does CAISO fully support the principle that EDAM RS failure consequences should prevent leaning?

Q3: Given that the EIM has failed to accurately recognize resource insufficiency of the CAISO BAA or to prevent extensive leaning by the CAISO BAA on supply procured by other EIM entities, how can potential EDAM entities have confidence that the same outcome will not occur in the EDAM? What steps will the CAISO take so that “no leaning” is actually achieved for an EDAM, when it is has been unable to achieve this result in the EIM to date?

Q4: What steps will the CAISO take to manage the fact that it not only has a primary role in designing and implementing any EDAM RSE, but will also be the balancing authority for an EDAM entity that is one of the most likely to experience significant challenges in passing an accurate and well-designed RSE? Would CAISO support the engagement an Independent Market Expert to assist in the design and review of the EDAM RSE proposal?

The third element of a functioning Resource Sufficiency framework has not been previously articulated, but is the logical consequence of the first two. To the extent an entity’s forward resource planning approach does not result in enough committed supply to demonstrate resource sufficiency prior to the EDAM timeframe, that entity will necessarily need to procure additional supply in order to satisfy the EDAM RS requirement. Even a perfectly accurate RSE with effective consequences can only detect and strive to prevent leaning; but it cannot *cure* the underlying resource insufficiency. For this reason, EDAM participants will need to commit to act in good faith and procure any additional supply necessary to ensure they come to the EDAM with sufficient resources on a consistent basis.

In the context of the EIM, which is built upon the same no-leaning principles, all EIM entities *other than the CAISO* already undertake additional supply procurement activity on an ongoing basis to pass the EIM RSE. The CAISO, however, has not taken the steps necessary to bridge the gap between the supply committed under California’s Resource Adequacy program and the quantity of supply necessary to demonstrate resource sufficiency on critical demand days.

Q5: Does the CAISO agree that each EDAM entity—including the CAISO—must commit to act in good faith to procure the additional supply necessary to pass the RSE, including on capacity critical days, as a foundational principle of EDAM design?

Q6: What specific steps will the CAISO take to ensure such additional supply procurement occurs for the CAISO BAA? (e.g., seek expanded annual and seasonal backstop procurement authority, pass through sufficient incentives for LSEs in its BAAs to procure annual, seasonal and/or short-term supply ahead of the EDAM, etc.)

Physical Scheduling

Entities in the west outside of the CAISO BAA use physical scheduling rights under the OATT framework to deliver specific sources of supply to specific loads / customers.

Q7: How will EDAM participants physically schedule identified supply to identified customers ?

- Will EDAM support base schedules submitted prior to the market optimization (and that are not exposed to EDAM market settlements); or
- Will entities participating in EDAM be required to submit separate market self-schedules of generation and self-schedules of load, both of which will be settled as EDAM transactions?

Physical Transmission Rights

Transmission service providers outside of the CAISO provide service through the sale of physical transmission rights, often under agreements spanning many years and with renewal rights.

Q8: Will transmission customers continue to be able to fully utilize their existing transmission rights once the transmission provider joins the EDAM? Will this include the ability to schedule on those rights after the EDAM timeframe, with no exposure to financial settlement related to EDAM?

Q9: Will a transmission service provider be able to continue to sell new OATT transmission rights (e.g., as existing rights terminate) after it begins participation in the EDAM, and have those rights continue to be treated as physical rights?

Q10: Will transmission customers that hold transmission rights that include renewal or rollover rights continue to be able to exercise those rights to receive OATT transmission rights for a new term, and have those rights continue to be treated as physical rights?

Congestion Rent Allocation

The EDAM Concepts generally call for congestion rents on a shared interface to be allocated evenly between the entities on either side of the constrained interface (*i.e.*, 50/50). But congestion on interfaces with the CAISO BAA appear to be allocated entirely to the side that binds first (*i.e.*, 100/0).

Q11: Why is the allocation of congestion rents for transfers between BAAs governed by special provisions for the CAISO BAA? Why was this selected as the starting point for EDAM discussions?

Q12: Why would CAISO not allocate congestion rents for transfers with the CAISO BAA in the same manner as proposed for other EDAM BAAs (i.e., explicitly 50/50)?

Q13: If most OATT transmission is made available to the EDAM optimization, is this approach not likely to result in the CAISO side of the intertie being allocated the majority, if not all, of the congestion rents on multi-segment paths such as the Pacific AC and Pacific DC paths?

Q14: Does CAISO believe it is appropriate or equitable for more than half of the congestion rent on shared interties like the Pacific AC or Pacific DC to be disproportionately allocated, on an ongoing basis, to either the CAISO and distributed to CAISO load customers or the external ratepayers that fund the upstream half of those interties?

Price Formation

CAISO has recognized that price formation is a critical topic, and has decided it should be evaluated under a separate stakeholder process “ahead of, or in parallel with, EDAM design work.”

Q15: What is the anticipated timetable for this price formation stakeholder process? Will CAISO commit to complete the price formation initiative prior to moving ahead with EDAM?

Q16: Given that price formation changes will directly affect EDAM transactions and participation, under what governance framework will the price formation stakeholder process proceed? In particular:

- Will the starting point be FERC policy and best practices from other organized markets, or will the starting point be the CAISO’s existing market design (with any departures from it bearing the burden of justifying why they are necessary)?
- If the latter, who will determine whether sufficient justification has been provided?
- Who will design the initial straw proposal? Who will judge whether modifications to the straw proposal should be made?
- What will be the role of EDAM participants in approving any modifications to the straw proposal and the final proposal?

Voluntary Nature of Transmission

EDAM, like the EIM, is described as a voluntary market. However, both the EDAM Concepts and presentations at the EDAM forum suggested that the scope of voluntary activity in an EDAM would be more restricted than in EIM.

Q17: Will transmission customers that hold transmission rights they wish to make available for use in EDAM be able to determine the quantity of such rights made available from hour to hour and from day to day?

Q18: Will transmission service providers with unsold transmission capability and that wish to make some or all of that capability available for use in EDAM be able to determine the quantity made available from hour to hour and from day to day?

Note, the above questions refer to the communication to the market operator of the quantity of transmission prior to any EDAM market run. Powerex recognizes that transmission communicated to the market operator as available, and subsequently used to support EDAM transactions, should not be rescinded or reduced other than under defined and appropriate circumstances.