

## Comments on the Presentations Addressing Extension Of the Day-Ahead Energy Market to the EIM

Submitted by	Organization	Date of Submission
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SCE appreciates the opportunity to comment on the presentations shared at the recent workshop held on February 11-12, 2020 to discuss the possible extension of the day-ahead energy market to the EIM footprint.<sup>1</sup> SCE's comments address each of the specific elements of Bundle 1 – resource sufficiency, transmission provisions and congestion revenue rights – within the initiative.

### Resource Sufficiency Evaluation

- Consistent and uniform application of the resource sufficiency evaluation across the market footprint is important for the establishment of a level playing field in the market and the provision of similar economic incentives for all market participants
- Universal application of the evaluation in each BAA preserves the diversity benefits identified for extension of the day-ahead market to the EIM footprint
- Resource showing and counting rules inclusive of imports to BAAs should not compromise any BAA's resource adequacy arrangements
- To the extent that the power supply portfolio includes a significant presence of resources associated with unpredictable supply, the resource sufficiency requirements should account for such presence if leaning on other BAAs must be avoided
- Efficient sourcing of power supply from internal and external sources to a BAA should result in the maximization of diversity benefits though equitable distribution of the benefits that differs from the maximization process will result in trade-offs among BAAs
- SCE appreciates understanding more about the CAISO's approach to handling the release of excess capacity from RA resources and its resale when the day-ahead market is extended to the EIM footprint given the requirements of the resource sufficiency evaluation and the resource adequacy program
- SCE cannot support the submission of forecasts from individual BAAs accompanied by a non-binding 24-hour operating plan in the day-ahead market. Co-optimization across the market footprint is intended to introduce a single market across which diversity benefits are maximized simultaneously with the minimization of power supply procurement costs. Given that each forecast will have a measurable forecast error, the risks of increasing the inaccuracy of the market forecast and diminishing the diversity benefits based on the

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<sup>1</sup> See <http://www.aiso.com/InitiativeDocuments/Presentation-ExtendedDay-AheadMarketWorkshop-CaliforniaISO.pdf> ; <http://www.aiso.com/InitiativeDocuments/Presentation-ExtendedDay-AheadMarket-ResourceSufficiencyEvaluation-EIMEntities.pdf>; <http://www.aiso.com/InitiativeDocuments/Presentation-ExtendedDay-AheadMarket-TransmissionProvision-EIMEntities.pdf>; and <http://www.aiso.com/InitiativeDocuments/Presentation-ExtendedDay-AheadMarket-CongestionRents-EIMEntities.pdf>

market's extension are too significant. Minimization of the demand forecast error should be a focus for the market footprint.

- The CAISO needs to ensure that market participants who may provide inputs to the CAISO forecast, for the market footprint, face strong enough incentives to submit quality information to the process
- Bid submission must be enforced as a requirement for participation in the day-ahead market thereby ensuring active participation that results in efficient price formation as market participants compete to satisfy the declared demand for the footprint
- Locations within BAAs that are prone to severe congestion may not provide good candidate resources for satisfying demand within the BAA and should not count towards the resource sufficiency evaluation unless the location has an established minimum local purchase requirement whose quantity can be included in the evaluation.
- BAAs must recognize that in pursuing the maximization of diversity benefits there will be some tradeoffs in the distribution of those benefits as efficient resources are selected for commitment to satisfy demand in all BAAs that establish the market footprint since the objective is to minimize procurement costs
- SCE welcomes additional explanation on the fuel availability and deliverability challenges that resources in EIM BAAs may encounter since these challenges seem to suggest that dependence by the CAISO for resource performance is subject to uncertainty. SCE expects that resources offered in the day-ahead market by scheduling coordinators operate consistent with the resource's declared availability during bid submission and subsequent update as real-time approaches. Should any unexpected development occur, the scheduling coordinator should attempt to update the resource's availability in the market as soon as that information becomes known to the scheduling coordinator.
- Currently, failure of the resource sufficiency evaluation by a BAA results in the freezing of energy transfers from that BAA at the level of energy transfer in the immediately preceding dispatch interval prior to the failure. While this mechanism affects the level of diversity benefits expected, SCE expects that the corrective action taken by the CAISO against the deficient market participants is also considered in the distribution of diversity benefits when determined.
- SCE is unwilling to support any proposal whereby a BAA passes the day-ahead resource evaluation test and the CAISO chooses to forego application of the evaluation again in the real-time market to that BAA. Accepting such a standard suggests that performance in the day-ahead market is required while performance in the real-time market is voluntary which results in the distortion of incentives for market participation.

SCE acknowledges that transmission provided on a limited and voluntary basis creates uncertainty, therefore the possible maximization of diversity benefits will be limited within the day-ahead market. Any potential for trading the bid range of resources among BAAs to satisfy the resource sufficiency evaluation will be limited to transmission made readily available by the BAAs such that frequent, unpredictable recall of the transmission has the potential to diminish the diversity benefits claimed as attractive for extension of the day-ahead market to the EIM footprint.

## Transmission Provision

- Based on the presentations from the CAISO and EIM entities, transmission rate design differs among the BAAs which indicates that the exposures to under-recovery of transmission costs differs among the BAAs. The difference creates expectations among BAAs about equity in the distribution of diversity benefits. While a universal design may not be possible due to load distribution differences, the EIM BAAs should not expect that voluntary participation in the day ahead market establishes some greater claim to the distribution of diversity benefits.
- SCE appreciates further elaboration on whether transmission right holders in the CAISO BAA whose rights are associated with pre-existing contracts enjoy similar quality transmission service as the interchange rights holders within EIM BAAs. The CAISO and all BAAs need to understand whether equivalent value in transmission service can be expected when market participants use the transmission network for any BAA should those transmission rights holders choose to release their unused rights to the CAISO for temporary use by other market participants.
- Further, SCE wonders whether a uniform methodology can be applied among the BAAs for calculation of available transmission capacity given that the California investor-owned utilities have ceded operational control of their transmission assets to the CAISO while EIM BAAs will retain full operational control of their transmission assets in the market.
- SCE also appreciates any clarification and further understanding that may be provided of whether transmission made available as “Bucket 1” transmission by an EIM BAA is likely subject to recall by that EIM BAA within the day-ahead market although the capacity was made available to support energy deliveries included in the resource sufficiency evaluation.
- In addition, SCE seeks to learn whether there will be any entities that are not EIM entities who will have access to the transmission capacity made available such that should agreement to a proportionate share in congestion rents be reached among the CAISO and EIM BAAs there will be no subsidization of transmission access allowed to external parties by market participants within the CAISO and EIM BAAs.
- While there may be a clear case for a proportionate share of congestion revenue by any EIM BAA whose unsold transmission capacity is released to the CAISO for use in the day-ahead market and the capacity is used by the CAISO, any transmission capacity recalled should be excluded in the determination of the size of the share; or, if included, the share awarded to the EIM BAA should be reduced by the forfeited congestion revenues on the transmission paths when capacity was subject to recall.
- SCE is unable to express an opinion about transmission charges at this juncture due to the uncertainty of the level of transmission service implied by the transmission rate classes and the conditions for recall reflected by EIM BAAs thus far. More information is needed prior to any determination of an appropriate transmission access charge, if any shall apply.
- SCE asks the CAISO to provide additional clarity on the transmission charge implied when wheeling is involved and the use of unsold transmission capacity (“Bucket 3” transmission) is involved. Is the intermediary BAA the only party that charges for transmission or a transmission rate is developed such that there is transmission revenue sharing between the source and intermediary BAAs that participate in the wheeling transaction.

- SCE defers any comment on the day-ahead timelines for declaration of available transmission capacity until clarity is established on what constitutes available transmission capacity when offered by any EIM BAA in the day-ahead market.
- In cases where there are joint owners of transmission assets such that one of the owners is the operator of the asset, the CAISO may need to consider a different mechanism for transmission access relative to the single owner particularly if both owners have not agreed to participation in the EDAM and significant wheeling over the assets is involved.
- Given the CAISO's discourse on wheeling charges in relation to unsold transmission capacity ("Bucket 3") from an EIM BAA, SCE questions whether any net wheeling charge, if considered, should include use of transmission capacity subject to recall
- SCE requests further clarification of the CAISO's example on the compensation of transmission use in situations when the energy exchange (that may involve wheeling) among BAAs occurs. Of interest to SCE is the CAISO's economic rationale for the approach proposed such that the market participants involved face appropriate incentives that produce efficient behavior.

### **Congestion Revenue Rights**

- While the release of transmission capacity reserved by transmission customers within EIM BAAs accommodates an alternative use for that capacity when offered to the CAISO, its compensation through a share of the congestion revenues has no justification particularly when such capacity is subject to recall at short notice.
- The threat of short notice recall of released transmission capacity already provides incentives for gaming the market based on the unpredictable recall. Therefore, SCE sees no reason to legitimize such an incentive in the market that is likely to distort market incentives and outcomes. SCE is open to any convincing arguments that persuade different market behavior by participants or a different market outcome that contributes to market efficiency.
- Though SCE notes the example provided within the EIM presentation whereby different contributions of transmission capacity by BAAs is considered and the distribution of congestion revenue internalizes each party's contribution of available transmission, SCE requests additional clarity regarding the economic basis for unsold transmission capacity ("Bucket 3") from a BAA being in receipt of the hurdle rate for transmission access and a larger share of the congestion rent.