

# Pacific Gas & Electric Comments – BPA Day-Ahead Market Participation Workshop 11-4-24

## Summary

PG&E appreciates this opportunity to offer comments on BPA’s decision-making process with respect to Day-Ahead (DA) market participation. The decision on a Day-Ahead market is an important one for Pacific Northwest customers and the entire West. It is encouraging to see BPA considering comments from such a diverse group of participants. PG&E respectfully offers two comments:

- Seams create inefficiencies and will cost customers. As pointed out by others at the workshop, many of the issues that BPA cites with CAISO’s governance are seams issues. PG&E urges BPA to consider EDAM as a solution, not a problem.
- Voluntary transmission in Markets+ creates the potential for economic withholding and the exercise of market power, putting BPA’s customers in harm’s way.

## **Seams Create Inefficiencies and Will Cost Customers**

EDAM represents a solution to BPA’s concern, not a problem. On slide 33 of the 11-4-24 presentation, BPA reviewed several issues it believes arose out of CAISO’s problematic governance.<sup>1</sup> To wit, BPA noted that “During stressed market conditions, the curtailments of wheelthroughs are a concern” and an “Unbalanced value proposition from intertie transmission.” As noted by others at the workshop, these are actually seams issues which will need to be addressed regardless of any governance concerns.

Joining Markets+ will not change these concerns. Issues like 1) wheels through CAISO’s system, and 2) congestion rent allocation will continue to be managed on each side of the California-Oregon Intertie (COI) much in the same way that they are currently managed.

## Wheel Through CAISO’s System

If BPA joins EDAM, it would not wheel through CAISO’s system. Instead, it would receive EDAM Transfers, which enjoy scheduling priority equivalent to native load. In the rare case where curtailments are necessary, such curtailments are likely to be small because they must be proportionate to CAISO’s load shed. This alleviates BPA’s concern with respect to the uncertainty of CAISO power flowing during stressed system conditions.

Alternatively, if BPA joins Markets+ it will have to purchase Available Transfer Capacity (ATC) to receive priority wheeling. The supply of ATC is restricted by planning assumptions (same as all other Tariffs), which means BPA will only be able to enjoy a limited amount of available capacity. EDAM Transfers do not have the same restrictions. If BPA joins EDAM, it will have access to all the COI transmission that is available, every hour of every day. Additionally, BPA would not need to purchase ATC because EDAM entities enjoy EDAM Transfer scheduling priority as an EDAM participant.

## Congestion Rent Allocation

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<sup>1</sup> Slide 33, BPA Day Ahead Market Participation Presentation 11-4-24: <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/2024/dam-workshop-9-presentation-110424.pdf>

BPA has noted that current congestion rent allocation is not fair to its customers and has noted that switching to Markets+ is a pathway to fixing this issue. Based on our understanding, this allocation problem is caused by BPA and CAISO not being in the same day-ahead market; therefore, joining EDAM is the solution, not the problem. But if BPA joins Markets+, it will be locking in these problems for the foreseeable future.

Over MLK weekend (2024), California captured \$141.3 million in congestion rents across just two peaking events in the past year, compared to only \$8.8 million in congestion going to transmission between Malin and Mid-Columbia (i.e. the PNW). That's 94% that flowed to California vs. 6% that flowed to the PNW. This despite the fact that the physical congestion was largely occurring north of the California border.

The problem arises because the CAISO market does not model nor control transmission constraints outside of its market (e.g., COI or transmission in BPA's territory). The COI owners have agreed to operating procedures that limit the COI flow based on the most limiting constraints on either side of the flowgate. The CAISO then manages the COI flow using an Intertie Scheduling Limit (ISL). This is not evidence of poor governance, nor is it a CAISO decision. This is a work-around when a flowgate is managed at a market seam. This means that if BPA joins Markets+, then the problem is likely to continue because it will have to be managed across market seams.

If BPA joins EDAM, transmission constraints north of COI (that were previously managed with Intertie Scheduling Limits on COI) will instead be modeled on specific paths and the congestion rent will accrue to the BA where the congestion occurs. EDAM is the solution to the seams issues over COI as it eliminates the seam.

### **Voluntary Transmission in Markets+ Creates the Potential for Economic Withholding and the Exercise of Market Power, Putting BPA's Customers in Harm's Way**

On slide 37 of the 11-4-24 presentation, BPA states that it believes that the "overall transmission design is similar between EDAM and Markets+."<sup>2</sup> PG&E disagrees. In EDAM, all transmission is in the market; transmission rights are financially respected and self-scheduled. There is no method of excluding transmission capability from EDAM. Meanwhile, PG&E continues to have concerns about the potential for economic withholding under Markets+. Under Markets+, all of a participant's transmission is considered "in" the market unless it is opted out. But participants can opt out any amount of their transmission, and for any reason.<sup>[3][4]</sup> This can be problematic as economic withholding of transmission can result in (i) artificial shortages; (ii) gaming between day-ahead and real-time; and (iii) individuals maximizing their congestion rent revenues.

#### Artificial Shortage

Hypothetically, if a market participant who owns a substantial amount of transmission forecasts BPA's system will be stressed during a given month, it could opt-out transmission to create artificial shortage.

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<sup>2</sup> Slide 37, BPA Day Ahead Market Participation Presentation 11-4-24: <https://www.bpa.gov/-/media/Aep/projects/day-ahead-market/2024/dam-workshop-9-presentation-110424.pdf>

<sup>3</sup> See SPP Markets+ tariff filing, Attachment D, Section 1.2: [https://www.spp.org/documents/71376/markets%20plus%20tariff%20amended%2020240405\\_filed%20version%2002.pdf](https://www.spp.org/documents/71376/markets%20plus%20tariff%20amended%2020240405_filed%20version%2002.pdf)

<sup>4</sup> During the 7-18-24 DA Markets Workshop, when asked about the potential for economic withholding, BPA confirmed that Markets+ would not visit the reasons for participants opting out their transmission.

When asked about this during the 7-18-24 workshop, BPA responded that the functionality of the Open Access Transmission Tariff (OATT) framework would release those withheld rights ahead of the Real Time (RT) market. This may address a RT reliability problem, but participants incur the elevated DA prices, undermines reliability by setting up the DA market incorrectly, and creates opportunity around “expected” RT re-dispatch.

#### Gaming Between Day-Ahead and Real-Time.

Hypothetically, a market participant could opt-out certain transmission paths to force the Markets+ optimization to rely on resources owned by that same entity to advantage itself in the market.

Furthermore, consider how such a scheme could be used with hydro. The participant forces the market to turn on its hydro unit in the DA, then when the transmission gets released in RT, the market may redispatch to turn on a different unit to avoid the opportunity cost of the hydro. Thus, this entity gets paid for their unit being dispatched in the DA market, but the hydro is never actually depleted.

#### Maximizing of Congestion Rent Revenues

Hypothetically, a market participant could achieve a similarly unfair advantage within the congestion activities of the market. An entity who owns a substantial amount of transmission might be able to predict that, by withholding certain transmission paths, it could maximize congestion rent over that line or cause the Markets+ optimization to reroute power flows across other lines that the same entity owns, thereby increasing the value of the remaining transmission that it owns. Either way, strategically withholding transmission to increase an entity’s congestion revenue results in an inefficient market and would expose BPA customers to higher cost.

#### **EDAM is the Solution, Not the Problem.**

BPA should be concerned about seams and how transmission is utilized in the market. Joining EDAM reduces seams, equitably allocates congestion and transfer rents, and reduces the risk of BPA’s customers being exposed to market power exercised through the withholding of transmission.