

**Opinion on  
Day-Ahead Market Enhancements (DAME):  
Addendum**

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the Market Surveillance Committee of the California Independent System Operator (CAISO)<sup>1</sup>

Addendum of May 12, 2023

**I. Introduction**

On May 3, 2023, the Market Surveillance Committee adopted an Opinion<sup>2</sup> on the Day Ahead Market Enhancements (DAME).<sup>3</sup> The purpose of this Addendum is to correct our description in Section 3.6 of that Opinion of the cost allocation mechanism that the CAISO is proposing for Imbalance Reserves (IR).

Since adopting the Opinion, our understanding of how the CAISO intends to allocate costs of IR has changed. In particular, our understanding is that allocations of IR costs to each Balancing Area Authority (BAA) are to be based upon nodal prices and quantities, analogous to energy settlements. We conclude that this allocation of IR costs and congestion revenues among BAAs is appropriate because of its parallel to the calculation of energy costs by BAA and the allocation of energy congestion revenues. Thus, our overall conclusion about the appropriateness of the CAISO's proposal for IR cost allocation is unchanged.

To reflect our changed understanding of the CAISO's proposal, we would make the following changes to our Opinion.

- (1) Section 3.6 would be changed to read as follows: "We understand that the cost of procuring imbalance reserve in the day-ahead market will be calculated for each BAA based on the cost of the cleared uncertainty in each BAA (the nodal price times the

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<sup>1</sup> The opinions in this document reflect the personal views of the members of the committee and do not necessarily represent or reflect the views of any institutions with which they are affiliated.

<sup>2</sup> James Bushnell, Scott M. Harvey, and Benjamin F. Hobbs, *Opinion on Day-Ahead Market Enhancements*, Market Surveillance Committee of the CAISO, May 3, 2023, [www.caiso.com/Documents/MarketSurveillanceCommitteeFinalOpiniononDay-AheadMarketEnhancements.pdf](http://www.caiso.com/Documents/MarketSurveillanceCommitteeFinalOpiniononDay-AheadMarketEnhancements.pdf).

<sup>3</sup> California ISO, *Day Ahead Market Enhancements, Revised Draft Final Proposal*, May 1, 2023, [www.caiso.com/InitiativeDocuments/RevisedFinalProposal-Day-AheadMarketEnhancements.pdf](http://www.caiso.com/InitiativeDocuments/RevisedFinalProposal-Day-AheadMarketEnhancements.pdf).

cleared quantity at each location within the BAA) less payments for IR supplied at locations within the BAA (nodal price times cleared quantity at each location within the BAA). The aggregation of these net charges and payments across the EDAM will at time generate congestion rents which will be allocated to transfer constraints and transmission constraints in the same manner as congestion rents on energy flows.”

- (2) Footnote 30 would be changed to read “While it is our understanding that imbalance reserve procurement costs will be allocated to the balancing area based on the cost of cleared uncertainty in that balancing area, these costs may be allocated among multiple entities within the balancing area pursuant to OATT provisions and it is therefore important that all imbalance reserve prices reflect competitive market outcomes.”