

## **Comments on Regional and EIM Greenhouse Gas Compliance Revised Draft Final Proposal**

### **Department of Market Monitoring**

July 14, 2017

The Department of Market Monitoring (DMM) appreciates the opportunity to review and comment on the ISO's Revised Draft Final Proposal for GHG accounting in EIM and regional markets. The ISO has proposed a two pass system to better account for emissions impacts of transfers from EIM areas to California. The revised formulation of the two pass solution is a significant improvement over the original formulation. The revised formulation avoids some of the pricing and market power mitigation anomalies that could have occurred under the previous formulation.

However, any two pass solution could undermine the efficiency of CAISO spot markets. This is because a two pass solution will complicate, delay, or even prevent valuable future market changes due to the complexity a two pass solution will add to the market model and software. Additionally, a two pass solution that limits transfers between EIM entities based on a counterfactual that does not exist can result in a final dispatch that does not minimize overall costs. This will limit the potential benefits of EIM.

DMM's understanding is that the ISO plans to construct and test the two pass solution. The ISO plans to test the extent to which the new method improves GHG accounting compared to the current method. DMM recommends that the ISO also test for impacts on market solution time, market prices and efficiency.

Effective testing will require establishing some benchmarks to compare to the test results. It will also require the development of test scenarios to represent a wide variety of possible conditions. Stakeholder involvement in the development of benchmarks and test scenarios could significantly improve the quality of the testing.

DMM recommends that the ISO continue to evaluate GHG accounting options that do not involve adding a pass to the real time market optimization. One option to consider is using assumed rates for estimated leakage and either allocating those costs to California load or finding some other mechanism, in conjunction with ARB, to take that number of allowances out of circulation. GHG accounting options that do not add a second pass to the market optimization would preserve market optimization run time and other ISO resources for future market design enhancements that could facilitate renewable integration and improve market efficiency. Alternative options could also allow the CAISO dispatch solution to continue to minimize spot market costs.