



651 Commerce Drive  
Roseville, CA 95678

phone (916) 781-3636  
fax (916) 783-7693  
web www.ncpa.com

**Comments of Northern California Power Agency  
Regional GHG Compliance  
October 13 Technical Workshop**

**October 27, 2016**

Northern California Power Agency (“NCPA”) appreciates the opportunity to provide the following comments on CAISO’s October 13, 2016 Technical Workshop for the Regional Greenhouse Gas Compliance stakeholder process. The Technical Workshop provided a broad outline of three options to address GHG Compliance in a potential regional market. As discussed in these comments, NCPA has several questions about the three options, particularly Option 3. NCPA understands that CAISO intends to publish a Straw Proposal in November that will include more details about how these options would work. NCPA urges CAISO to address the following questions and issues in the Straw Proposal.

**Self-Schedules**

At the Technical Workshop, CAISO stated that out-of-state generators under contract with California LSEs would not be subject to the “hurdle rate” proposed in Option 3. This raises several questions that CAISO should address in the straw proposal:

- How would these generators schedule these resources to ensure dispatch and scheduling?
- Would self-schedules be permitted?
- If so, in which CAISO markets would self-schedules be permitted (or excluded)?
- Would the financial settlement for self-scheduled generation work similarly to today’s rule sets (e.g. ineligible for bid cost recovery, startup costs, etc.)?
- Would this treatment apply also to the GHG cost component (i.e. are out-of-state generators that self-schedule essentially a price-taker for GHG costs)?

**Tracking, Assigning, and Monitoring GHG Obligations**

While NCPA understands that the simplifications embodied Option 3 make the solution easier to implement, CAISO should consider Option 3’s compatibility with current (or future) regulations.

One issue in particular requires clarification. CAISO proposed that, to negate the need to assign GHG obligations to each out-of-state generator, it would enter into a contract with a third party to take on those GHG obligations. The straw proposal should address the following questions:

- Does CAISO know of a situation where this arrangement is used today? Stakeholders could benefit from an example case.
- Does CAISO envision this third party taking on all legal obligations associated with the GHG emission obligations (e.g. reporting under the Mandatory Reporting Regulations, managing compliance instruments under the cap-and-trade program, and paying the CARB’s administrative fee)? How will compensation for this management service be determined for this third party? How would the costs of this compensation be allocated to CAISO stakeholders (e.g. collected through LMPs, neutrality, GMC, etc.)?

Along the same lines, the use of a third party to take on GHG obligations potentially introduces a number of risks to Market Participants. Under the CAISO’s Option 3 proposal, CAISO would collect funds from the CAISO market participants through the LMPs. There is potentially a substantial time lag between when CAISO would collect these dollars from the market and when this third party must take action to meet its legal requirements defined CARB regulations. For example, generation in January 2018 is not completely settled (i.e. through the retirement of compliance instruments) until November 2019 (30% of the requirement) and November 2021 (the remaining 70% of the requirement). The straw proposal should address how CAISO will address the following issues:

- How will CAISO monitor and enforce contract provisions that ensure such risks are managed properly?
- How would costs associated with these monitoring and enforcement activities be allocated to Market Participants?
- If the third party were to incur penalties, fines, or a “delay for timely compliance” penalty, how will those costs be allocated to Market Participants?

### **Hurdle Rate**

Option 3 would include a “hurdle rate” that is applied to all out-of-state generators. Some stakeholders expressed concerns that this breaks away from existing state policy to accurately assign emissions to carbon-emitting resources and may upset the incentive structure that the cap-and-trade program is intended to create. NCPA is concerned that this may put in-state generation assets at a cost disadvantage relative to out-of-state

generation assets, even if the in-state assets are lower-emitting than the out-of-state resources.

Specifically, NCPA is concerned about the potentially discriminatory treatment between in-state and out-of-state resources. In-state resources that are subject to the CA cap-and-trade program face direct costs for GHG emissions *specific to the generator's operating characteristics*. In contrast, the hurdle rate for out-of-state resources would be an *average, non-unit-specific rate* that could blend compliance costs of low- and high-emitting external resources (compared with today, where in-state and out-of-state resources all provide unit-specific GHG adders). This could put lower-emitting in-state resources at a disadvantage. The straw proposal should explain how CAISO will ensure that the hurdle rate will not underprice GHG obligations for out-of-state resources (particularly thermal resources, such as coal) such that those resources are dispatched for California load even though their actual GHG cost makes them uncompetitive in California.