



## Comments of PacifiCorp on the Regional Integration California Greenhouse Gas Compliance 10/13 Technical Meeting

Submitted by	Company	Date Submitted
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### Introduction

PacifiCorp hereby submits the following comments to the California Independent System Operator Corporation (ISO) on its Regional Integration Greenhouse Gas Compliance Technical Meeting held October 13, 2016. PacifiCorp's principal interest in these comments is in preserving the value and integrity of the energy imbalance market (EIM) including the associated customer cost savings and renewable integration benefits. Ensuring the success of the EIM, and the treatment of greenhouse gas accounting therein, is also of central importance to the ultimate success of a Regional Independent System Operator (RISO). If California adopts policies that unduly burden entities outside of California, it jeopardizes continued interest and participation in EIM as well as continued interest in the development of an RISO. PacifiCorp is strongly opposed to such an outcome and therefore provides comments urging a different approach by both the ISO and the California Air Resources Board (ARB) than is currently in process.

### Procedural Comments

PacifiCorp has significant concerns with respect to the manner in which this policy initiative is proceeding. This stakeholder process has been presented by the ISO as based in a need to modify how the market will identify resources serving load in various states in the context of an RISO. As noted in prior comments, PacifiCorp agrees that a different approach for tracking and reporting greenhouse gas emissions will be needed in the context of an RISO, when e-Tags will no longer be utilized for supporting energy schedules into California. However, what is evident from the October 13, 2016 technical meeting is that the purpose of this stakeholder process is ultimately to address concerns raised by ARB staff regarding emissions leakage that it believes is occurring in the EIM. The question of addressing ARB's concerns with respect to leakage is a much narrower topic, currently on a much different timeline and trajectory, than the development of the RISO. PacifiCorp is concerned that individual stakeholders who may be interested in the EIM topic are not participating in this stakeholder process because they are not aware of the substantial impact the ISO's proposals could have on EIM. While clearly any modifications to



greenhouse gas accounting in EIM will have implications for the RSO, these issues should be separate—not the least because the ISO’s proposals have significant potential consequences for EIM in the near-term. The ISO should not undertake or make changes such as those proposed without more clearly articulating its specific objectives and purposes. PacifiCorp recommends that the ISO separate the EIM process from the RSO process.

At the technical meeting, the ISO indicated that it is working with ARB through its stakeholder process to address greenhouse gas accounting concerns in the current EIM design. PacifiCorp has some concerns that the ARB and ISO stakeholder processes are not aligned. PacifiCorp understands that the ISO is planning on making any necessary changes to the EIM optimization and market rules by January 1, 2018, which is when ARB also plans to implement proposed changes to greenhouse gas reporting for EIM imports. However, ARB’s current schedule includes a final board hearing in Spring 2017 for changes that will take effect beginning in 2018. This may not be enough time for the ISO to implement market changes including obtaining any necessary approvals from the Federal Energy Regulatory Commission (FERC). As will be discussed in detail below, PacifiCorp is concerned that the current options for market changes outlined during the technical meeting may raise Federal Power Act and competitive concerns that may not be approved by FERC. If FERC does not approve EIM market changes implemented to reflect regulatory amendments already adopted by ARB, EIM entities may be in the position of needing to comply with ARB reporting requirements that are inconsistent with the ISO optimization and FERC mandates. In the worst case, this uncertainty could lead to diminished interest in participating in EIM and negatively impact current participants. PacifiCorp strongly urges the ISO and ARB to conduct a joint stakeholder process so that the issues and timelines associated with these complex issues can be resolved in the most efficient and certain manner.

## **General Comments**

PacifiCorp provides below comments on the specific ISO proposals presented at the technical meeting; however, PacifiCorp notes that ARB has yet to definitively identify its legal ability and technical justification for the proposed changes to its mandatory reporting and cap-and-trade programs. ARB staff has not identified the magnitude of the emissions leakage it believes is occurring in the EIM. Nor has ARB staff addressed significant potential legal concerns associated with effectively regulating emissions outside of California that by the very definition of emissions leakage are not imported into California. Under the existing bilateral energy market, the same “secondary dispatch” emissions identified by ARB may be associated with specified sales to California. If energy from a hydroelectric resource is sold to California on a wholesale basis, there may be emissions associated with any “backfill” energy that is incremented to serve load that would not have occurred but for that sale to California. ARB does not currently require a counterfactual analysis to identify “secondary dispatch” emissions associated with specified



sales. It is not clear on what basis it is appropriate to regulate emissions leakage in EIM but not in the bilateral market.

Due to these issues, it is unclear whether a complex solution such as those proposed by the ISO is actually needed or justified to address a problem that has not been carefully articulated or supported with technical analysis. PacifiCorp therefore in general continues to oppose changes to the existing greenhouse gas accounting methodology and the need for any changes to the ISO optimization which could ultimately pose an existential risk to the EIM. Therefore, PacifiCorp's specific comments provided below do not represent an agreement that emissions leakage is occurring in EIM, that ARB has specific authority to regulate emissions leakage in the manner proposed, or that changes to the market optimization are ultimately necessary.

### **Technical Comments on ISO Proposed Options**

With respect to any changes proposed to EIM to address emissions leakage, PacifiCorp agrees with the principles articulated by the ISO at the technical meeting, but would modify the principles to more clearly articulate objectives. With respect to treatment of greenhouse gases in the EIM, under the current framework where only California regulates imported emissions, it is of critical importance that: 1) resources outside of California may continue to choose not to import energy to California to avoid regulation under California's cap-and-trade program; 2) greenhouse gas costs do not impact prices external to the ISO balancing authority area; and 3) resources internal to California are treated comparably with resources external to California. Though PacifiCorp agrees with these principles, it is not clear from the discussion at the technical meeting exactly whether and how the proposals set forth by the ISO ensure that these principles are maintained. PacifiCorp recommends that, in its straw proposal, the ISO specifically articulate how its proposal will preserve these principles.

In the technical meeting, the ISO presented three options for addressing potential emissions leakage in EIM: 1) calculate overall greenhouse gas impact based on a comparison to a counterfactual dispatch outside the market optimization (Option 1); 2) modify the ISO optimization but maintain a resource specific cost and attribution (Option 2); and 3) modify the ISO optimization to add a residual emission rate for EIM transfers into the ISO (Option 3). Conceptually, if a change becomes necessary, PacifiCorp would prefer Option 1 because it would involve the least disruption to EIM. It is the most straightforward and simple approach, likely would not require FERC approval, and could be implemented with minimal market changes or disruption. Though PacifiCorp has some concerns with the use of a counterfactual analysis to identify emissions leakage, as will be discussed below, an accounting outside of the market optimization is less problematic in that it could be periodically updated and improved without FERC approval and with less potential disruption to the market.



PacifiCorp understands that ARB staff interprets the language of Assembly Bill (AB) 32 as prohibiting ARB from netting emissions over time and that Option 1 may be politically unpopular for a number of reasons. However, the reality is that Option 1 has the potential to reasonably approximate the greenhouse gas emissions associated with the existence of EIM transfer capability between California and external EIM entity BAAs. Option 1 also would avoid the extreme difficulty associated with incorporating accurate and fair greenhouse gas price signals to the entire multi-state EIM footprint when only California regulates imported power. In light of the complexity of these issues and potential vulnerabilities associated with Options 2 and 3 (described below), the least disruptive solution to the leakage concern identified by ARB is Option 1. Given the timing constraints imposed by ARB for adopting regulatory amendments, if Option 1 is not acceptable on a long-term basis, it also could be implemented on a temporary basis while more complex options are finalized. PacifiCorp understands that the ISO cannot change ARB staff's interpretation of AB 32 and therefore needs to focus on what it might consider more viable alternatives. However, PacifiCorp urges the ISO to keep Option 1 on the table and part of the stakeholder discussion rather than dismissing it based on ARB staff's interpretation. In this way, stakeholders have the opportunity to continue to urge ARB to adopt this simpler approach.

Under Option 2, the ISO would perform a two-step process to identify incremental emissions associated with California load. The first step would be to perform the optimization without transfers between CAISO and EIM Entity BAAs and the second step would perform optimization with transfers between CAISO and EIM Entity BAAs. The second step would be compared with the first to identify the incremental emissions associated with California load. The ISO has indicated that this may be the preferred long-term solution but that it does not expect to have the computational power to implement this option by January 2018. PacifiCorp understands the appeal of this option because it would appear to correctly identify the emitting resources that have been incrementally dispatched as a result of California's participation in EIM. However, in terms of the development of a long-term solution, PacifiCorp has potential concerns with the use of a counterfactual optimization, which will inherently incorporate assumptions and lack precision. This issue may be exacerbated over time as the EIM footprint expands. For instance, it is unclear how the optimization will treat energy that is wheeled through California—wheels through California would not occur but for transfer capability between California and EIM entity BAAs but energy wheeled through California does not serve California load. It is unclear whether emissions associated with wheels through California should appropriately be considered emissions leakage under California's cap-and-trade program. This is just one concern that may arise from the use of a counterfactual analysis. The challenge will be in designing the counterfactual such that it correctly identifies emissions that are imported to California and therefore appropriately regulated under AB 32. PacifiCorp encourages the ISO to continue to explore this option but whether or not it is ultimately supportable will depend on the mechanics of the counterfactual analysis, when they are developed.



With respect to Option 3, PacifiCorp is concerned that it may violate the principles articulated above: it appears that this option may increase prices outside of California as well as disadvantage resources outside of California as compared to identical resources inside California. For example, it would appear that the hurdle rate would apply to a zero-emitting resource (making it less likely to be dispatched) outside of California while the hurdle rate would not apply to zero-emitting resources inside California. As a result, pursuing this option may increase the vulnerability of the California cap-and-trade program to challenges under the dormant commerce clause as well as increase the risk that FERC will not approve this option. This may also decrease interest from entities outside of California from participation in the EIM and reduce the benefits of current EIM participants. In certain instances, it also appears that Option 3 could result in overall increased emissions as compared to the current resource specific attribution methodology. Nonetheless, the technical meeting included a relatively small amount of information regarding how this option would function in practice. It is not yet clear how exactly the application of a residual hurdle rate would impact EIM dispatch and prices. PacifiCorp recommends that in the straw proposal the ISO specifically address competitive concerns and vulnerability to dormant commerce clause and Federal Power Act challenges.

### **Conclusion**

PacifiCorp appreciates the opportunity to submit these comments and looks forward to continuing to work with the ISO on resolving this complex and challenging issue.