



## Comments of PacifiCorp on the Regional Integration and EIM Greenhouse Gas Compliance Straw Proposal

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 California Greenhouse Gas Compliance and EIM Greenhouse Gas Enhancement Straw Proposal (Straw Proposal) published November 17, 2016.

### Procedural Comments

PacifiCorp continues to be concerned with the apparent disconnect between the ISO's stakeholder process and the process underway at the California Air Resources Board (ARB). The ISO's proposal represents a fundamental shift in the way California will account for greenhouse gas emissions associated with imported electricity. Since it is ARB that currently has the responsibility for this accounting, the ISO's process cannot move forward without a concurrent process at ARB. Similarly, ARB cannot move forward with shifting its energy import accounting methodology paradigm without a concurrent technical process at the ISO. Even before considering the technical concerns with the ISO's proposal raised below, the proposed approach raises significant legal and policy questions regarding the appropriate scope and reach of California's cap-and-trade program. While the ISO proposal is designed to identify emissions with a causal relationship to California load, this may not be within ARB's jurisdiction, which under Assembly Bill 32 is limited to energy imports. Whether or not the emissions identified by the ISO's proposal may be regulated by ARB is a threshold question that should be addressed before the ISO moves forward with implementation. These legal and policy questions should be addressed by ARB with stakeholder input. To date, ARB has not adequately described the issue it is proposing to solve nor has ARB clearly articulated the legal and policy support for a particular approach. PacifiCorp's initial review of the ISO's proposed two-pass optimization is that it is likely to increase EIM costs overall and reduce the benefits of participating in the EIM. It is therefore critical that any such modifications are implemented only if they are fully legally supportable.

PacifiCorp appreciates the ISO's focus on the perceived issue and its willingness to find a long-term solution as opposed to focusing on solutions that can be implemented by 2018. This is appropriate given the complex nature of the issue as well as the need to coordinate changes to



ARB's regulations to reflect changes in the ISO's market optimization. PacifiCorp requests that the ISO, in conjunction with ARB, establish a timeline setting forth the implementation of any changes to market optimization as well as concurrent rulemaking activity at ARB.

### **Technical Comments**

PacifiCorp is more supportive of the ISO's decision to focus on a long-term solution rather than solely on changes that can be implemented in a relatively short period of time. PacifiCorp also supports the ISO's decision to reject the idea of implementing a hurdle rate to all resources external to California, which was likely to create more problems than it solved. However, PacifiCorp continues to have concern with respect to the proposed two-pass optimization given its computational complexity and the simplifications that will be necessary in order to implement. PacifiCorp is uncertain that the two-pass optimization approach is technically viable in the long-term, especially as more EIM Entities join the EIM footprint and more states adopt carbon policies making the computational process more burdensome. Additionally, it is not completely certain the simplifications required in the first step of the optimization process will not impose any indirect financial responsibilities on EIM entities.

As noted above, following PacifiCorp's initial review of the Straw Proposal and the illustrative spreadsheet model published by the ISO, it appears likely that the implementation of the two-pass optimization will increase costs for California as well as other EIM Entities. Increased costs would be likely due to the fact that non-emitting participating resources external to California (excluding those contracted to serve California load) would be utilized to first displace any thermal resource in the GHG Base run due solely to economics, and, therefore, only higher priced non-emitting resources would be selected incrementally in the second pass. Essentially, this means that all non-emitting resources, such as solar and wind, that have very low economic bids would always be used to displace thermal resources in the non-California balancing areas in the GHG Base run, which would not allow those resources to be selected to serve California loads. For a hydro-based entity contemplating joining the EIM, the possibility of not being selected to serve California loads with its incremental hydro resources due to the two-pass optimization would provide the incentive to not offer its resource into the EIM, but instead utilize the bilateral market where it can make designated resource specific sales to California. PacifiCorp requests that the ISO conduct an assessment of market impacts and market performance associated with implementing the two-pass optimization solution.

The ISO's proposal also includes the application of simplifications in the GHG Base run to ensure that the model may be run within the timeframe allowed. PacifiCorp is concerned that the simplifications of the GHG Base run will result in unintended consequences as well as make the operational dispatch less accurate and more vulnerable to challenge. PacifiCorp has seen that the ISO market model dispatches to relieve transmission congestion across the area, and more frequently in the California ISO balancing area. It is difficult to understand how a simplified model for the GHG Base run, that does not consider congestion or potentially other transmission constraints, can be compared to a GHG Base run for incremental dispatches without understanding what changes were caused by California loads and what changes were caused by consideration of transmission constraints. It is likely that transmission constraints would cause changes in dispatch that are greater than the consideration of California loads. By changing so



many variables between the runs it would be impossible for the ISO, or ARB to identify with confidence that an incremental dispatch was used to serve California loads for GHG purposes. This issue will only become more problematic as additional entities are added to the EIM footprint and additional transmission constraints and system complexities are added to the market model. PacifiCorp requests that the ISO conduct an analysis of the potential impact and consequences of each proposed simplification.

### **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.