Western Power Trading Forum (WPTF) Comments on Regional EIM GHG Design Straw Proposal

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WPTF is pleased to submit these comments on the CAISO's Regional EIM GHG Design Straw Proposal, dated November 17, 2016. WPTF is supportive of the direction taken by the ISO in the straw proposal. We offer specific feedback below.

Process Feedback

The current policy has distortions and the markets are resulting in unintended dispatch results. WPTF believes that the CAISO's proposed 2-pass approach will offer a significant improvement over the current design and over alternatives that have been considered thus far. WPTF encourages implementation as soon as possible.

As the ISO noted, there will be an interim period before the policy becomes effective during which CARB will need a "bridge" solution. Any bridge solution will be less optimal than the proposed approach by the ISO. WPTF urges the ISO to expedite the policy process and begin development and testing, with the ultimate goal of minimizing the interim period during which the bridge solution is effective. During the development and testing phase, the ISO should allow opportunities for stakeholders to review results and provide feedback regarding any potential modifications or seek clarifications that may be needed.

As currently described, there is an EIM design which is then expanded to a regional design. Other regional stakeholder efforts have recently slowed momentum, awaiting seating of the Western Governing Body, prior to finalizing any designs. The issue being addressed in the GHG policy is a result of the ISO being a multi-state BAA, and not an issue that exists only under regionalization. The EIM GHG design is a much-needed improvement over the current GHG accounting mechanism and is a step in the right direction. WPTF encourages the CAISO to seek approval for the regional GHG design in early 2017. However, irrespective of the regional design, WPTF urges the ISO to move forward and obtain necessary approval of at least the EIM design.

We also request that the ISO identify in the not too distant future opportunities for stakeholder engagement regarding further details of the design, such as design interfaces and modeling for bid structures under a multi-regime paradigm. These are discussed further as follows.

Additional clarification needed prior to finalizing design

Any market design should enable scheduling coordinators to accurately represent the resource and its costs in the market optimization. WPTF encourages the CAISO to share further information related to the below design elements as the ISO furthers its software design, although WPTF does not suggest the policy process be slowed at this point to wait for such details.

1. GHG costs

As currently proposed in the EIM and Regional solution, all resources will submit an energy bid, with the GHG cost to serve load in its own GHG regime embedded, and a separate GHG bid adder and GHG MW

quantity for each GHG regime it is not physically located within.[1] WPTF encourages that as the development process continues the CAISO share additional details about this design and how it translates to a multi-GHG regime.

While this may work under a one GHG regime paradigm, it does not seem to easily transition into a multi-GHG regime paradigm without loss of accurate cost representation and price formation unless the CAISO establishes a policy of unbundling energy and GHG costs in all regions.[2]

WPTF encourages further information about these design choices as the CAISO proceeds with implementing details.

2. Resources contracted with CA LSEs and RA treatment

The CAISO's proposal includes resources located outside of California that are contracted with CA LSEs as part of California supply in both passes of the two-pass approach. WPTF anticipates that prior to application of the new policies the CAISO will clarify which contracts will be relevant for such attribution to California load and what-if-any demonstration is required. WPTF further recommends that further clarification be offered regarding RA treatment. For example, WPTF encourages the CAISO to confirm that it expects RA/energy delivery and GHG attribution would be to the same location as opposed to the GHG being deemed to be under contract to one regime and the RA being for the benefit of another area.

Thank you for your consideration of these comments.

[1] The GHG MW quantity reflects how many MWs the resource is willing to be deemed delivered to another GHG regime; the GHG bid adder is the GHG cost to serve the other regime. When the optimization considers the cost of that resource to serve load in another GHG regime, it sums the energy bid and the appropriate GHG bid adder.

[2] For example, assume two GHG regimes, A and B. A gas resource located in GHG regime A submits a single bid to serve regime A load of $40/MWh (with $5 GHG cost embedded); the same resource submits a GHG bid adder of $3/MWh to serve regime B load. The optimization will see the cost for the resource to serve regime B as $43/MWh ($40/MWh energy plus $3/MWh GHG regime B bid adder). Therefore, the total GHG cost incurred by the market to serve regime B is $8/MWh ($5 embedded in energy bid and $3 GHG bid adder for regime B). The market design allows resources to accurately reflect GHG costs to serve other GHG regimes only if the GHG cost to serve another GHG regime is higher than the GHG cost to serve its own regime.