

Comments of Calpine Corp. on the Regional Integration and EIM Greenhouse Gas Compliance Draft Attribution Report Materials and Next Steps

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November 20, 2017

As a large owner and operator of efficient in-state gas generation, Calpine is very concerned about the distortions to dispatch away from efficient in-state gas generation associated with “secondary dispatch” in EIM, a form of resource shuffling whereby relatively clean external resources are attributed to California load and relatively dirty external resources are attributed to loads outside of California in a way that reduces California GHG compliance obligations but does not actually reduce overall emissions. As documented by CAISO staff and the Brattle Group in their presentations at the December 4th stakeholder meeting, this distortion could lead to significant decreases in energy produced by in-state gas generation and increases in GHG across the entire EIM footprint under the status quo relative to a 2-pass approach that would account for secondary dispatch. One type of 2-pass approach would involve dispatching resources economically without allowing transfers between CAISO and EIM entities in the first pass and then attributing to California only incremental dispatches relative to the first pass that are used to meet California loads. Notwithstanding the intuitive appeal of the 2-pass approach, the MSC, Bill Hogan, and others have identified potential problems with the approach. In particular, because clean resources outside of California potentially can earn more if they are attributed to California load, they may undermine the 2-pass approach by submitting high energy bids so that they are not allocated to external loads in the first pass. The CAISO has proposed three main approaches to addressing secondary dispatch in light of the above: (1) Account for the emissions associated with secondary dispatch after the fact by retiring allowances; (2) Implement a version of the 2-pass approach that blunts the incentives of clean external resources to distort their bids in order to be allocated to California load; and (3) Apply a hurdle rate or minimum GHG bid to all external resources in EIM. Calpine believes that only options (2) and (3) have the potential to address secondary dispatch. Because option (1) involves the ex post retirement of allowances it is unclear how or whether market participants would actually internalize such costs and adjust their behavior in a manner that leads to efficient dispatch and lower aggregate emissions accordingly. Calpine looks forward to further discussions to refine options (2) and/or (3).