

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Carbon Pricing in FERC-Jurisdictional )  
Organized Regional Wholesale Electric )  
Energy Markets )  
\_\_\_\_\_ )

Docket No. AD20-14

**MOTION TO INTERVENE AND COMMENTS OF THE  
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The California Independent System Operator Corporation (CAISO) files this motion to intervene and comments pursuant to Rule 214 of the Commission's Rules of Practice and Procedure<sup>1</sup> and the Commission's April 21, 2020 Notice of a petition requesting the Commission hold a technical conference or workshop to discuss integrating state, regional, and national carbon pricing in organized wholesale electricity markets.<sup>2</sup> Petitioners seek to foster a discussion of carbon pricing in wholesale electricity markets in order to identify practical technical and implementation issues. These discussions are already occurring in the CAISO's stakeholder processes and among Western policymakers and regulators seeking to implement carbon emission reduction programs. Any technical conference or workshop scheduled by the Commission should leverage and not intrude on these ongoing processes. If the

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<sup>1</sup> 18 C.F.R. § 385.214. The CAISO is a non-profit public benefit corporation organized under the laws of the State of California with its principal place of business at 250 Outcropping Way, Folsom, California 95630. The CAISO is a Balancing Authority and Transmission Operator responsible for the reliable operation of the electric grid consisting of the transmission systems of several utilities. The CAISO also serves as the Market Operator for the Western Energy Imbalance Market. The CAISO has a direct and substantial interest in this proceeding and requests that the Commission permit it to intervene with full rights as a party.

<sup>2</sup> See Notice of Request for Technical Conference or Workshop dated April 21, 2020. <https://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=15514878>

Commission schedules a technical conference or workshop on carbon pricing in wholesale electricity markets, the CAISO will provide resources to support the Commission's efforts.

## **I. Carbon pricing in the CAISO and Western Energy Imbalance Market**

The Commission has accepted rules within the CAISO's market to accommodate California's greenhouse gas (GHG) emission reduction program that affect wholesale sales of electricity. Since 2013, when California first established a compliance obligation for GHG emissions, the CAISO market has allowed scheduling coordinators for internal and external resources importing to serve load in California to include the emissions costs of greenhouse gas allowances as part of their energy bids. In addition, the Commission accepted CAISO market rules to incorporate the emissions costs of greenhouse gas allowances into the calculation of generating units' variable costs, providing generators a reasonable opportunity to recover their variable energy costs.<sup>3</sup>

In connection with the Western Energy Imbalance Market (EIM), the Commission has also accepted market rules to allow scheduling coordinators for EIM participating resources located in balancing authority areas outside of California to recover their costs of compliance with California's GHG program that arise from real-time transfers of electricity to serve California demand.<sup>4</sup> When these EIM participating resource

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<sup>3</sup> *California Independent System Operator Corp.*, 141 FERC ¶ 61,237 (2012); Letter Order dated February 26, 2013 in Docket ER13-219-001.

<sup>4</sup> See generally *California Independent System Operator Corp.*, 147 FERC ¶ 61,231 (2014); see also CAISO tariff at section 29.32. Petitioners characterize the CAISO's rules as "placing a carbon adder on bids coming into California from other states that are not subject to the California cap-and-trade law." As explained below, the submission of bid adders by EIM participating Resource Scheduling Coordinators is voluntary and serves as a signal to the market optimization that a resource's output is available to serve demand within the CAISO or other EIM balancing authority areas located within California. EIM

scheduling coordinators serve demand within the CAISO or another EIM Entity located within California (e.g., the Sacramento Municipal Utility District) they must comply with California's GHG program. The CAISO's market rules allow scheduling coordinators for EIM participating resources to submit bid adders on a voluntary basis to make their output available to serve demand in California. These bid adders consist of a MW quantity and a price that reflects the EIM participating resource's costs to comply with California's GHG program.

Based on least cost dispatch, EIM bid adders allow the CAISO to attribute which EIM participating resources support real-time transfers to serve demand in California and compensate EIM participating resource scheduling coordinators for their costs of compliance under California's GHG program. At the same time, the bid adders allow the CAISO to dispatch EIM participating resources to serve EIM demand outside of the CAISO without reflecting the costs of California's GHG gas program in locational marginal prices for resources serving that demand.

Over the last several years, the CAISO has refined these market rules in consultation with stakeholders and policymakers and regulators across the West.<sup>5</sup> This work has helped identify that carbon pricing in wholesale electricity markets involves both the objectives of market efficiency and accurate emissions tracking. The intersection of these objectives requires a balance, especially in regions where states have implemented different carbon emission reductions programs or in regions where

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participating Resource Scheduling Coordinators may also elect not to submit a bid adder and instead only serve EIM demand in EIM Entity balancing authority areas located outside of California.

<sup>5</sup> *California Independent System Operator Corp.*, 153 FERC ¶ 61,087 (2015); *California Independent System Operator Corp.* 165 FERC ¶ 61,050 (2018). See also Informational Report of the CAISO filed in Docket ER18-2341 on Implementation of EIM Bid Adder Rules dated December 27, 2019: <https://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=15432533>

some's states do not have carbon emission reduction programs. In short, the tension between these two objectives involves securing the least cost dispatch among resources participating in a wholesale electricity market while allowing states to track resource emissions that occur based on electricity usage within their states. This balance requires careful policy consideration by regulators, market operators, and affected stakeholders to ensure wholesale electricity market rules align with state or regional carbon emission reduction programs. Accordingly, the CAISO urges the Commission to consider that different approaches may be necessary and appropriate to implement carbon pricing in wholesale electricity markets.

**II. The Commission should allow any carbon pricing rules in wholesale electricity markets to develop through stakeholder processes.**

In the West, various discussions are underway regarding how to evolve carbon pricing in wholesale electricity markets. For example, the CAISO has initiated a stakeholder process to explore extending its day ahead market to EIM participants.<sup>6</sup> An element of that discussion will necessarily include how to evolve EIM market rules to account for greenhouse gas costs across participating entities in the day-ahead timeframe. The CAISO intends to schedule a stakeholder workshop on this issue in the fourth quarter of 2020.

In addition, states themselves are exploring how their carbon emission reductions programs intersect with wholesale electricity markets. For example, the state of Washington is exploring administrative rules to implement carbon emission

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<sup>6</sup> More information on the CAISO's stakeholder process to extend its day-ahead market platform is available on the CAISO's website: <http://www.caiso.com/StakeholderProcesses/Extended-day-ahead-market>

reduction in the electricity sector.<sup>7</sup> This effort will involve a carbon and electricity markets rulemaking proceeding scheduled to commence in 2021.

The Western Interstate Energy Board (WIEB) also facilitates discussion of the changing resource mix and electricity market evolution. The EIM Regional Issues Forum also hosted a two-day workshop last year on carbon emission reduction programs and wholesale electricity markets.<sup>8</sup>

The CAISO believes these discussions, and others like them, are critical to developing a regional approach to address carbon pricing in wholesale electricity markets effectively and efficiently. They will inform CAISO stakeholder processes to evolve carbon pricing in the markets it administers. Any action by the Commission in this proceeding should not prejudge these efforts or undermine states' authority to implement their carbon emission reduction programs.

### **III. Conclusion**

Petitioners seek to foster a discussion on carbon pricing in wholesale electricity markets through a technical conference or workshop. The CAISO urges the Commission to consider that, at least in the Western region, these discussions are already occurring. In advance of scheduling any technical conference or workshop, the Commission may wish to consult with state utility and air regulators to assess whether such a technical conference or workshop would help clarify how carbon pricing rules in

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<sup>7</sup> See State of Washington Implementation Plan – Clean Energy Transformation Act Rulemaking: <https://www.commerce.wa.gov/wp-content/uploads/2019/08/CETA-Implementation-Plan-2019-08-27.pdf>

<sup>8</sup> A summary of this meeting is available at the following website: <https://www.westerneim.com/Pages/Governance/RegionallIssuesForum.aspx>

wholesale electricity markets can support state-specific and regional carbon emission reduction programs.

Dated: May 19, 2020

Respectfully submitted,

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## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 19th day of May 2020.

*/s/ Martha Sedgley*  
Martha Sedgley