



**COMMENTS OF NV ENERGY
REVISED DRAFT FINAL PROPOSAL
EIM GREENHOUSE GAS ATTRIBUTION ENHANCEMENTS
DATED FEBRUARY 20, 2018
CAISO STAKEHOLDER PROCESS**

March 6, 2018

NV Energy provides the following comments to the California Independent System Operator Corporation (“CAISO”) on its EIM Greenhouse Gas (“GHG”) Enhancements second revised draft final proposal (“Proposal”) dated February 16, 2018, and discussed during a February 22, 2018, webinar. NV Energy appreciates the challenges of designing market rules that accommodate different environmental policies of member states and the efforts of CAISO Staff throughout this stakeholder process. Energy generated in California or imported into the state to serve California load is subject to California’s GHG regulations adopted by the California Air Resources Board (“CARB”). Under these regulations, the compliance obligations apply to first deliverers – generation owners or electricity importers. No-compliance obligation is imposed on non-emitting resources.¹

There are two aspects of the CAISO’s Proposal:

- (1) Limit the GHG bid quantity of an EIM Participating Resources to the megawatt (“MW”) value between the EIM Participating Resource’s Base Schedule and the resource’s upper economic level; and
- (2) Apply a secondary emission adder, established by CARB, on non-California, non-emitting resources within the EIM who will then be responsible for buying GHG credits for this dispatch.

NV Energy supports the first part of the Proposal that seeks to improve the attribution of resources used to serve California imbalances – restricting the GHG bid quantity to a value between the EIM Participating Resource’s Base Schedule and the resource’s upper economic level. This improvement should be self-evident and non-controversial. If a portion of a non-emitting resource is being used to serve load as part of a Base Schedule, that capacity cannot also be used to serve load in California and therefore no “attribution” can be made from that capacity.

Indeed, NV Energy hopes that implementing this aspect of the initiative should significantly address the important concerns that have been raised by CARB and others about the current methodology for accounting for GHG imports into California. For the reasons described below; however, NV Energy does not support the use of an adder to non-California, non-emitting EIM Participating Resources in the Proposal.

¹ 17 CCR §95101(f) states, “[t]his article does not apply to, and greenhouse gas emissions reporting is not required for: (1) Electricity generating facilities that are solely powered by nuclear, hydroelectric, wind, or solar energy, unless on-site stationary combustion emissions equal or exceed 10,000 metric tons of CO₂e...”



In December 2017, the Western Energy Imbalance Market (“EIM”) Body of State Regulators (“BOSR”) enunciated two key principles that should be applied to any option being considered for a market design change: (1) the market design must be non-discriminatory and (2) the market design must support economic dispatch. Beyond these sensible criteria are the requirements of the Federal Power Act that rates and tariffs be just and reasonable and not unduly discriminatory. The second aspect of the Proposal appears to not meet these tests and could set an unacceptable precedent in a multi-state, organized wholesale market by treating non-California, non-emitting resources differently than in-state, non-emitting resources. NV Energy is concerned that the proposal to apply an adder to non-emitting, non-California resources, *only if they participate in the EIM*, is unduly discriminatory. Accordingly, NV Energy respectfully requests that the CAISO withdraw this aspect of the proposal and utilize an alternative that would not result in the discriminatory treatment.

The disparate treatment of similar resources is illustrated in the following chart:

Resource Type	GHG Bid Quantity	GHG Bid Adder
In California Supply	Upper economic level less base schedule	Resource specific emission rate – no adder for non-emitting resources
Out of California Supply under contract to serve California load	Upper economic level less base schedule	Resource specific emission rate – no adder for non-emitting resources
EIM Entity non-emitting resource (solar/wind/hydro)	Upper economic level less base schedule	“secondary dispatch” GHG adder
EIM Entity gas unit	Upper economic level less base schedule	Resource –specific GHG adder
EIM Entity coal unit	Upper economic level less base schedule	Resource –specific GHG adder

The problem is readily apparent. The same type of unit located inside California as outside of California has a different GHG rate, if and only if, the resource is in the EIM. One has a GHG adder the other does not – even if the facility does not produce GHGs. The discriminatory aspects of the proposal are further illustrated by the fact that exactly the same unit located outside of California is treated differently depending on whether it is contracted to serve California load or simply bids into the EIM. By adding an adder (an apparent hurdle rate) to the unit if it is in the EIM (or any subsequent day-ahead market) it creates the incorrect incentive for the potential EIM Entity to stay out of the market and simply bid the resource at the CAISO border as the GHG adder would not apply.

According to the Proposal, “[w]hen dispatching resources to serve load outside the CAISO, the market optimization considers only the energy bid. When dispatching resources to serve load inside the CAISO, the market optimization considers the energy bid plus the GHG compliance cost adder.” Imposing a GHG compliance cost adder only on a subset of out-of-state non-emitting



resources that don't produce GHGs is unduly discriminatory. They should have the same ability to participate in the same real-time market dispatch with similarly constituted California non-emitting resources. Moreover, the CAISO has not studied the effect of its proposal on the EIM. In fact it cannot study the effect because it did not identify the proposed price of the secondary dispatch adder.

It is important to recognize that there are solutions available to the CASIO that do not discriminate against out-of-California non-emitting resources. NV Energy recommends that CAISO and stakeholders take additional time to consider these approaches.

For example, CARB has adopted a method to account for the GHG effects from secondary dispatches associated with the dispatch of EIM resources to serve CAISO load. Under the rule that took effect January 1, 2018, CARB retires unsold allowances equal to the estimated difference in emissions between what the CAISO's optimization identifies from resources dispatched to serve CAISO load and the unspecified source emission rate applied to imports at CAISO scheduling points. While CARB adopted this approach as an interim rule pending the CAISO's development of EIM design changes to address emissions from secondary dispatches, its use can be extended until the CAISO developed a non-discriminatory proposal.

Additionally, Dr. Hogan proposed an import leakage fee (secondary emissions fee) on all imports deemed to California from other outside entities within the EIM. This would be charged as a rent component similar to congestion rent or a modeling constraint that is added to the optimization. The difference is that this leakage charge would not be rebated back to EIM generators outside of California for carbon credits. Instead this component would be allocated to CARB as a secondary emission fee.²

“This leaves the system with the net fee on imports that would not revert to the generators. As with a carbon tax, treatment of this component must be kept separate from the dispatch to support the efficient dispatch by maintaining consistency of prices and the incentive to follow dispatch.”²

NV Energy proposes that CAISO consider this solution or at least provide a statement as to why this solution may not be the best approach.

NV Energy proposes that only the non-emitting resource base scheduling attribution move forward at this time. This would allow CAISO additional time to study and quantify the impact of the new resulting secondary emissions and determine the need for additional approaches.

²Hogan, William W. "An Efficient Western Energy Imbalance Market with Conflicting Carbon Policies." *The Electricity Journal* 30.10 (December 2017): 8-15.