Comments of PacifiCorp on EIM Greenhouse Gas Enhancements

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Introduction

PacifiCorp hereby submits the following comments to the California Independent System Operator Corporation (ISO) on its Report on Proposed EIM Greenhouse Gas Enhancements published November 17, 2017 and discussed at a December 4, 2017 workshop.

PacifiCorp's comments on this topic continue to focus on maintaining the integrity of the EIM and the economic and environmental benefits that have already been achieved and that are likely to grow as the EIM expands. As with any significant proposed changes to the EIM market design, the top priority must be ensuring that basic principles of non-discriminatory least-cost dispatch are not compromised. Achieving other objectives through market design must be weighed against the risk of market disruption and introducing a discriminatory dispatch. In this instance, the risk of unintended consequences and market disruption associated with a two-pass optimization simply outweighs the necessity of this specific solution. This is particularly true in light of the regional nature of the EIM and the fact that it is under the jurisdiction of the Federal Energy Regulatory Commission (FERC)—it is PacifiCorp's view that it is not achievable or desirable to attempt to design a regional market that will fully accommodate individual state policies. Accordingly, PacifiCorp recommends that the ISO not pursue the two-pass optimization proposal and rather focus on alternatives that do not pose the same market risks.

The ISO Should Reconsider Out-of-Market Modifications to EIM Greenhouse Gas Attribution

In his white paper, William Hogan raises significant concerns with respect to market behavior incentivized by the two-pass optimization proposal and the potential market disruption that could result. Mr. Hogan concludes that "the proposed modifications could reintroduce errors of the past that fundamentally undermine an open and non-discriminatory market in electricity."[1] The level of market disruption discussed by Mr. Hogan would pose serious risks to the continued success of the EIM. The risk of such market disruption should not be taken absent robust justification and analysis, as well as support from EIM participants and stakeholders.

[1] Hogan White Paper at 1.

The justification for the two-pass optimization is rooted in California's environmental policies and the desire to impose an accurate carbon price signal to all energy serving California load regardless of where that energy is produced. PacifiCorp has significant concern with the precedent of making sweeping and potentially disruptive EIM market design changes to accommodate a single state's policies. The EIM is expanding in both footprint and scope. At the same time, additional states, most notably Oregon and Washington, are considering adopting carbon policies that may or may not be consistent with California's. As more states adopt carbon policies, or other energy policies that could impact the wholesale energy market and the EIM, it will become increasingly untenable for the EIM market design to accommodate all state policies.

In addition, the phenomenon of secondary dispatch is not isolated to the EIM. As stated in previous comments, transparency into intertie bidding with counterparties that have facilities that qualify as zero-emitting resources do not have to show that dispatch of those resources is incremental or is not resulting in secondary dispatch of a thermal resource. The only difference between the EIM and the day-ahead wholesale market is that the ISO dispatches the entire EIM footprint and has no visibility or control outside of California with respect to the day-ahead market. Greater control over and visibility to resource dispatch outside of California does not automatically translate into expanded authority or jurisdiction.

With respect to EIM governance, the ISO is no longer solely under the influence or jurisdiction of California but must respond to a broader regional governing body and set of stakeholder interests. Whether and how individual state policies influence or dictate the parameters of the EIM market design is a critical issue that has not been fully vetted or discussed in the context of the expanding EIM footprint. State policy influence and any resulting disruption of interstate wholesale energy market design may constitute an overreach of jurisdictional authority, particularly if any market design change impacts all prices and makes the market more complex and difficult to administer.

PacifiCorp therefore recommends that the ISO pursue solutions to improving greenhouse gas attribution accuracy in the EIM that will not change the economic dispatch optimization. This could be achieved in a variety of ways, most notably by identifying resources dispatched to serve California load based on a comparison to a counterfactual dispatch outside the market optimization. This is a straightforward and simple approach, likely would not require FERC approval, and could be implemented with minimal or no market disruption. This solution has the potential to reasonably approximate greenhouse gas emissions associated with EIM transfers between California and other EIM entity balancing authority areas. Though this may not be a perfect solution for some parties, it is a reasonable approach given the risks and complexities associated with market optimization-based alternatives.

If the ISO Chooses to Move Forward With the Two-Pass Optimization Proposal, an Assessment of Market Impacts Should be Conducted and Communicated

Notwithstanding PacifiCorp's recommendation that the ISO explore out-of-market alternatives, if the ISO does move forward with the two-pass optimization proposal, additional analysis and stakeholder process is needed. The ISO has yet to squarely address how the two-pass optimization might impact EIM prices outside of California. It is PacifiCorp's view that it is incumbent on the ISO to perform such an analysis and directly address concerns raised by William Hogan before moving forward with the implementation of a two-pass optimization. In particular given the expanding footprint and scope of the EIM, it is critical that current and future EIM entities, as well as the EIM Governing Body, have sufficient assurances that non-discriminatory least-cost dispatch will be preserved and that customers outside of California will not be negatively impacted in an unwarranted way by this change driven by state environmental policies specific to California. Before moving forward, PacifiCorp recommends that the ISO directly address these concerns to adequately assure stakeholders that the potential for market disruption is mitigated.

At the December 4th workshop, the ISO presented analysis on greenhouse gas attribution accuracy which showed modifications to transfers between the ISO footprint and other EIM entities between a one-pass and two-pass optimization. Stakeholders are left to conclude that the two-pass optimization generates a modified dispatch that changes settlement prices across the EIM footprint. The proposed solution is simply not supportable in the absence of more transparent information from the ISO regarding market price impacts that can inform stakeholder discourse.

Stakeholders and the EIM Governing Body should be empowered to understand the risks of market disruption and whether higher prices will be imposed to achieve an environmental objective, as that objective is defined by California. It has long been PacifiCorp's perspective that ARB's assertion that under Assembly Bill 32 it must regulate all emissions with a causal connection to California load ("backfill" emissions) is not legally supported. While not repeating those arguments here, stakeholders will need to be assured that a proposal such as this, if it does result in higher prices, is truly mandated by state law.

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.