

**Comments of The Utility Reform Network in  
“Regional Integration California Greenhouse Gas Compliance  
and EIM Greenhouse Gas Enhancement” Stakeholder Initiative**

December 15, 2016

The Utility Reform Network (“TURN”) offers the following comments regarding the California Independent System Operator’s (“CAISO’s”) “Regional Integration California Greenhouse Gas Compliance and EIM Greenhouse Gas Enhancement” stakeholder initiative.<sup>1</sup> In these comments, TURN addresses issues raised by the CAISO’s “Straw Proposal” of November 17, 2016 and the related slides presented at the December 1, 2016 stakeholder meeting.<sup>2</sup> More specifically, TURN (a) generally supports the CAISO’s decision to pursue “Option 2” rather than “Option 3,” (b) expresses concern about the continued potential for “resource shuffling” outside of California to subvert the state’s clean energy goals, and (c) emphasizes the need for consistent accounting by entities monitoring and regulating GHGs. TURN also reiterates its interest in the potential for this initiative to provide a means for monitoring compliance with the Portfolio Content Category (PCCs) requirements under the California’s Renewable Portfolio Standard (“RPS”).

TURN acknowledges the legal and technical challenges the CAISO faces in developing a tracking methodology for GHG monitoring and control programs, particularly those that are implemented by individual states. TURN also recognizes that there may not be immediate answers for some of the issues raised below. However, these issues and their implications must be kept in mind now and in the future, and addressed when possible, as regional markets and GHG policies evolve.

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<sup>1</sup> The stakeholder initiative was renamed to reflect the CAISO’s intent to also alter its accounting for Greenhouse Gases (“GHGs”) in the Energy Imbalance Market (“EIM”).

<sup>2</sup> Both the “Straw Proposal” and the “Slides” are available at <http://www.caiso.com/informed/Pages/StakeholderProcesses/RegionalIntegrationEIMGreenhouseGasCompliance.aspx>.

## TURN CONDITIONALLY SUPPORTS CAISO CHOICE OF OPTION 2

TURN comments the CAISO for changing course in this initiative to implement Option 2 – which would “[m]odify the ISO optimization to attribute transfers to resources that are incrementally dispatched and maintain resource-specific cost and attribution”<sup>3</sup> – instead of Option 3.<sup>4</sup> TURN also agrees with the CAISO’s intent to eliminate the current “mix-and-match” approach that can attribute GHG benefits to out-of-state resources that are different from those resources to which energy is attributed.<sup>5,6</sup> However, TURN is offering this support conditionally due to other concerns about the CAISO’s implementation of Option 2 and its GHG accounting more generally.

## POTENTIAL FOR “RESOURCE SHUFFLING” OR OTHER AVOIDANCE OF RESPONSIBILITY FOR GHGs MAY STILL BE POSSIBLE WITHIN THE EIM UNDER OPTION 2

TURN is still concerned about the potential for the CAISO’s implementation of Option 2 to result in negative GHG outcomes – that is, increases in GHGs – even if all market participants are in technical compliance with California’s GHG policies. For example, as TURN understands them, under the current EIM and the CAISO’s above proposal, a cheap out-of-state coal resource can bid energy into the EIM but choose not to be dispatched into the CAISO by including a GHG bid of zero MW. The EIM would then optimize the use of this resource within the EIM *outside of California* with regard only to its energy bid, likely encouraging its dispatch relative to more expensive resources, thus likely increasing GHGs. TURN also understands that such coal

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<sup>3</sup> See Straw Proposal, p. 9.

<sup>4</sup> See pp. 2-4 of “Comments of The Utility Reform Network in “Regional Integration California Greenhouse Gas Compliance” Stakeholder Initiative October 27, 2016 (“TURN’s October 27 Comments”), available at <http://www.caiso.com/Documents/TURNComments-RegionalIntegrationCaliforniaGreenhouseGasCompliance-TechnicalWorkshop.pdf>.

<sup>5</sup> *Id.*, pp. 4-6.

<sup>6</sup> Audio recording of December 1, 2016 stakeholder meeting (“Recording of Stakeholder Meeting”), starting at about 3:40:45, available at <http://www.caiso.com/informed/Pages/StakeholderProcesses/RegionalIntegrationEIMGreenhouseGasCompliance.aspx>.

resources can also be dispatched to serve California load if the sum of such plants' energy and GHG bids are low enough compared to other resources. The possibility of such outcomes is illustrated in the CAISO's proposed Draft Greenhouse Gas Emissions Tracking Report", which shows that the EIM increased GHGs in the 3<sup>rd</sup> quarter of this year.<sup>7</sup>

TURN recognizes that at this time, this problem may be beyond the ability of the CAISO or the California Air Resources Board ("CARB") to prohibit, or even discourage. But it will be important for the CAISO and all other involved parties to report fully on the EIM's GHG outcomes.<sup>8</sup> In addition, given the potential for coal resources to be the incremental resources serving the CAISO in the EIM, the CAISO should refrain from suggesting that only gas resources can serve such load.<sup>9</sup>

#### CAISO SHOULD TAKE STEPS TO ELUCIDATE GHG EMISSION ACCOUNTING

The CAISO should also address some other potential sources of inaccuracy and misunderstanding of its GHG accounting.

- *CAISO SHOULD PROVIDE CONSISTENT REPORTS ON GHG EMISSIONS, OR AT LEAST EXPLAIN WHY DIFFERENT DOCUMENTS REPORT DIFFERENT RESULTS*

In its October 27 Comments, TURN noted that the CAISO has published seemingly conflicting data regarding EIM GHG emissions in different reports.<sup>10</sup> The CAISO's proposed implementation of Option 2 seems to continue this pattern and raises questions about the validity

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<sup>7</sup> See Figure 2 on p. 2 of the Draft Greenhouse Gas Emissions Tracking Report available at <http://www.aiso.com/Documents/DraftGreenhouseGasEmissionsTrackingReport.pdf>. TURN notes that the report shows GHG emissions falling during the first two quarters of 2016.

<sup>8</sup> See TURN's recommendations in its November 21 comments on the CAISO's "Draft Greenhouse Gas Emissions Tracking Report" ("TURN's November 21 Comments"), available at <http://www.aiso.com/Documents/TURNComments-DraftGreenhouseGasEmissionsTrackingReport.pdf>.

<sup>9</sup> Slides, p. 24.

<sup>10</sup> TURN's October 27 Comments, pp. 6-8.

of the CAISO’s proposed implementation. To develop the GHG estimates of Option 2, the CAISO will start in each market interval with a “Step 1” that computes a “GHG accounting base” by optimizing the “Base Schedules” non-California entities submit to the EIM and then, in “Step 2,” optimize EIM transfers to and from California to determine the resulting incremental dispatches and GHG emissions and attribution.<sup>11</sup>

The CAISO justified Step 1 by stating “[t]he current EIM base schedule is not a good reference point to determine atmospheric effect”.<sup>12</sup> However, the CAISO has been publishing estimates of the economic benefits and, to a limited degree, the GHG impacts of the EIM that, as TURN understands it, measure such benefits and emissions from such *EIM Base Schedules*.<sup>13</sup> The CAISO may have good reasons for producing different results by different methods, but should reconsider whether this is appropriate and, if so, explain these different purposes and methods to the public.<sup>14</sup>

- ***CAISO APPROACH TO INCLUDING OTHER STATES’ POTENTIAL GHG REGIMES MUST ADDRESS POTENTIAL DOUBLE-COUNTING OF GHG BENEFITS BY MULTIPLE SUCH REGIMES***

The CAISO’s approach to incorporating other states’ potential GHG counting regimes raises a similar set of issues. As TURN understands it, the CAISO would estimate GHG impacts from other states’ possible GHG monitoring and control programs using an approach similar to the “CAISO Out / CAISO In” it proposes to use to monitor California GHG emissions. Further, the estimates for each such GHG regime would be made separately from each other.<sup>15</sup> However, as was discussed at the December 1 stakeholder meeting, this method could yield estimates of GHG impacts that would count GHG reductions from the same resources in the two separate

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<sup>11</sup> Slides, pp. 19-20.

<sup>12</sup> *Id.*, p. 13.

<sup>13</sup> Recording of Stakeholder Meeting, starting at about 3:41:10.

<sup>14</sup> TURN’s November 21 Comments, p. 2.

<sup>15</sup> Slides, pp. 31-33.

estimates.<sup>16</sup> Such results will not yield reasonable estimates of the impact of states' policies on GHG reductions, either for individual state policies or for the aggregate of such policies.

TURN recognizes that the CAISO may not feel a need to address this concern at this time, given that no other state is proposing a GHG control regime that relies on CAISO energy markets. However, this issue must be recognized and may need to be addressed in the future.

- *CAISO WILL NEED TO ENABLE OTHER ENTITIES TO VALIDATE ITS ESTIMATES OF GHG IMPACTS*

TURN has twice recommended the CAISO develop and maintain a “data store” to enable various state regulators and possibly other parties to audit the CAISO’s attribution of GHG benefits.<sup>17</sup> The CAISO appears to be taking the position that they will estimate such impacts in its market optimizations and not allow other entities additional follow-up. TURN re-iterates that many regulators may not accept the CAISO’s “black box” approach to providing results. Rather, the CAISO should expect to facilitate other entities’ discovery and analysis of the market’s computation of GHG impacts and attributions.

**CAISO SHOULD CONSIDER STEPS TO HELP MONITOR COMPLIANCE WITH CALIFORNIA RENEWABLE “PROCUREMENT CONTENT CATEGORIES”**

TURN has asked the CAISO twice, with no reply, whether its proposed GHG attribution mechanisms could also be applied to assessing whether California Load-Serving Entities’ (“LSEs”) procurement of renewable resources complies with the state’s RPS PCCs requirements.<sup>18</sup> TURN does not believe that the GHG attribution mechanism of Option 2 would serve this purpose. However, TURN notes that the CAISO is now considering adding a “flag” to its Masterfile that would specify whether a particular resource is under contract to a California

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<sup>16</sup> Recording of Stakeholder Meeting, starting at about 3:36:30.

<sup>17</sup> TURN’s October 27 Comments, pp. 8-9.

<sup>18</sup> *Id.*, p. 9.

LSE.<sup>19</sup> TURN also does not think this particular flag as conceived would serve the purpose of identifying resources that may be eligible for various PCCs, but wants the CAISO to address the possibility of using other existing or new flags in the Masterfile for this purpose.

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<sup>19</sup> Slides, p. 25. TURN is assuming that this flag would be new, but it may already exist in the Masterfile.