

Western Power Trading Forum Comments on EIM GHG Design

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10/27/16

WPTF is pleased to submit these comments on the CAISO's October 13th Regional GHG workshop and presentation. WPTF believes it critical to think or rethink the proposed actions associated with the EIM GHG design. We offer specific feedback below.

State Policy Differences drive the "leakage" Issue

The current EIM GHG "leakage" or "secondary" dispatch is a problem that is driven by fundamentally different state carbon policies. The CAISO's algorithm is performing consistent with how a well-designed least-cost dispatch should perform, and it is finding the resultant solution that satisfies the least-cost dispatch and the constraints wherein California carbon prices are included other states' carbon prices are not.

Resource shuffling is not a problem that can be entirely eliminated; it is therefore a misplaced policy objective to expect the CAISO's algorithm to overcome that impact of disparate state carbon policies. Certainly implementing changes that severely undermine the economic purity of the model are disadvantageous. (Moreover, it is unclear that addressing leakage within EIM will actually reduce or eliminate leakage, e.g., a hurdle rate in EIM may encourage more leakage in advance of EIM.)

The CAISO's analysis has shown that the EIM has reduced carbon emissions across the region.¹ WPTF encourages policy goals that create the correct short term price signals and long-term investment signals. At the same time, we must recognize that the differences in state policies will create distortions.

Pursuing one of the CAISO's proposed "fixes" may result in a "cure" that is worse than the "illness"

The CAISO has considered three options for addressing ARB's concerns. (Option 1 is seen as not viable from a policy perspective by the CAISO and is therefore not discussed in detail herein.)

We strongly oppose "Option 3" - the option that adds an additional carbon hurdle rate to all resources dispatched in the EIM (and deemed delivered to California) - as a regional (or EIM) dispatch solution. Such an option would have a strong propensity to distort market results and price signals. It is an entirely wrong step for the CAISO to intentionally design such a distortion to its model that otherwise operates correctly from an economic perspective. Option 3 would distort the short run dispatch and create very harmful long-term price signals for the continued build out of renewables, absent some sort of direct linkage to satisfying California's RPS requirement. In fact, this option may have no effect on leakage because "solving" the leakage issue in the EIM may simply cause an increased incentive to move the leakage issue into the DA market. Similarly, it may simply encourage bilateral purchases of clean resources by California loads outside of the DA market or the EIM. This in turn could reduce the bid stack in the EIM (and potentially a regional DA market if it were subject to the same algorithm). Surely, it is not the goal of the CAISO to discourage reliance on its markets. Focusing instead on a market design that aligns the DA and

¹ See http://www.aiso.com/Documents/EIMGreenhouseGasCounter-FactualComparison-PreliminaryResults_Jan-Jun_2016_.pdf, showing a net reduction in regional GHG of 291,998 MTons of carbon for the six-month period.

real-time/EIM markets would be preferable than simply adding a policy that encourages further leakage in the DA market.

WPTF also opposes any economic dispatch solution that treats contracted resources economically and adds a hurdle rate to resources that have not demonstrated long-term contracts. Such a solution would create a fundamental disconnect between forward contracted markets and spot markets, and it would create an administrative burden to manage all the contracting data as part of the market algorithm.

Modification to the CAISO Dispatch Algorithm May be Beneficial but Requires Careful Thought

Of the options identified one that endeavors to incorporate the carbon costs of imports used to specifically for California load should be considered if agencies cannot come to a meeting of the minds regarding reducing the policy goal distortion through other mechanisms. Such a change may require adjustments to the CAISO's algorithm.

The CAISO's "Option 2" comes closest to such a change, as Option 2 attempts to measure a baseline economic dispatch without transfer to California and then limit potential deemed deliveries to California to incremental dispatch above this baseline. However, it is critical to think through what the appropriate "base line" would be for such a solution. A baseline that assumes no trades between California the outside-of-California footprint also creates a distortion in that trades between California and Non-California entities exist in the DA market even without the EIM.

The presumptions regarding what economic dispatch would have occurred "but for" the policies that result in the ultimate dispatch should be very carefully considered.

CAISO Should Begin to Align the DA and RT/EIM Markets

As indicated above, the CAISO and stakeholders should also consider means to begin to align the DA and RT/EIM solutions. The ISO has already identified that its current carbon treatment in the DA does not hold for a multi-state market. The difference between the DA and EIM designs may be currently distorting market behavior and this is also disadvantageous. To the extent that the CAISO makes trading in certain markets less attractive, e.g., by imposing hurdle rates, trade may migrate to other markets. Even Option 2 could have this impact, i.e., if the algorithm makes it more difficult for clean resources to obtain credit for their cleanness, they may transact ahead of RT to realize that value. Contracting around the markets could have other adverse impacts such as resulting in higher levels of self-scheduling and exacerbated overgeneration conditions.

In summary, WPTF urges the CAISO to take a step back and ensure that it is not proposing solutions that may have a propensity to produce outcomes that are worse than the original "problem". WPTF also encourages the CAISO to begin thinking of how to align the DA and EIM GHG treatment sooner rather than later. We would be pleased to work collective to consider alternative designs.

Thank you for your consideration.