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CMUA Comments on “Regional Integration California Greenhouse Gas Compliance Issue Paper”

CMUA appreciates the opportunity to submit these introductory comments on the “Regional Integration California Greenhouse Gas Compliance Issue Paper,” dated August 29, 2016. In addition to its immense complexity, the issue of how carbon will be attributed in the co-optimized dispatch proposed for any regional ISO that includes consolidation of Balancing Authority Areas in a multistate footprint is a top priority issue. It implicates not only achievement of aggressive California carbon policies, but also respect for different state policies within the overall optimized market footprint. How this issue is addressed will likely also have significant financial implications for generators, particularly thermal generators in California.

Given the early stage of issue development on this matter, CMUA submits the following guideposts for consideration and some additional clarifying questions.

Guideposts

The Market Should Incentivize Behavior. The market design should incent appropriate market participant behavior, not simply attribute costs. Similar to the views expressed by CMUA in discussions on the proposed Air Resources Board regulations on Energy Imbalance Market carbon cost attribution, simply creating an obligation without a means to modify behavior to reduce emissions does little to achieve policy objectives, namely reduce carbon emissions. One such example of potential market distortion is allowing the ISO market to cover the cost of compliance obligations via an uplift collected from California ISO load to address leakage concerns due to the so-called “secondary dispatch.” CMUA’s concern is that uplift payments can adversely affect market outcomes, undermine the effectiveness of price signals and potentially reduce market efficiency. CMUA would urge the CAISO to prioritize possible market design solutions that incorporate carbon costs into the optimization which would affect dispatch decisions through market participant bidding.

Unhedged Cost Exposure. Any design should be cognizant of new cost exposure for smaller entities, some of whom may not be covered entities under ARB rules. The design should also not create exposure that cannot be hedged or otherwise mitigated due to the fact that the source of the cost exposure is largely outside of the entities’ control.

Market Power. Design solutions should recognize that in certain regions or Load Aggregation Points there will be a high degree of concentration of generation. While not fully articulated yet, CMUA is concerned that overly complex bidding and default pricing rules, coupled by the high degree of generation concentration in certain regions, will leave the design vulnerable to strategic behavior. Any process for developing rules as part of this initiative should include thorough vetting with the Department of Market Monitoring and the Market Surveillance Committee.

Economic Impacts on Generation. CMUA is concerned that disparate rules for resources in a single optimization will discriminate against California-based resources and contribute to reduced market revenues for those resources. Policy should encourage the substitution of the relatively clean

California thermal fleet for higher emitting resources in other portions of the West. That may include new rules that could modify carbon obligations for California resources that are serving out of state load. This critical issue must be addressed head on in policy development.

Clarifying Request

The Issue Paper at 11 states that “The market optimization will attribute which internal resources of the multi-state balancing authority area and imports to the entire footprint that serve California load.” CMUA requests a full narrative and mathematical explanation of how the optimization software will attribute generation dispatch to particular imbalances within a single optimization.

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