

**Comments of the Western Energy Imbalance Market Body of State  
Regulators**

**On the California Independent System Operator**  
*Regional Integration and EIM Greenhouse Gas Compliance Initiative*  
**December 18, 2017**

The Western Energy Imbalance Market (“EIM”) Body of State Regulators (“BOSR”) appreciates the opportunity to submit comments to the California Independent System Operator (“CAISO”) on the Regional Integration and EIM Greenhouse Gas Compliance Initiative (“Initiative”), launched in the third quarter of 2016.<sup>1</sup> The EIM BOSR was formed by the CAISO Board of Governors on September 17, 2015 in response to state-regulated electric investor-owned utilities participating or planning to participate in the CAISO EIM. The EIM BOSR is composed of one commissioner from each state public utilities commission in which load-serving regulated utilities participate in the EIM, including the ISO real-time market.<sup>2</sup> This includes Arizona, California, Idaho, Nevada, Oregon, Utah, Washington and Wyoming. One of the BOSR’s responsibilities is to express a common position in ISO stakeholder processes or to the EIM Governing Body on EIM issues.<sup>3</sup>

With introduction of the EIM, the ISO developed a greenhouse gas (“GHG”) tracking approach that reflects the costs associated with compliance with the California Air Resources Board (ARB) Cap-and-Trade Program in energy prices for transactions subject to that program, but not in energy prices for transactions that are not subject to the program. This approach reflects GHG compliance costs within locational marginal prices. Resources outside the ISO balancing authority area bid a GHG

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<sup>1</sup> California ISO Market Notice re: New Initiative: Regional Integration California Greenhouse Gas Compliance Paper Posted, Call 9/6/16, (August 29, 2016).  
<http://www.aiso.com/Documents/NewInitiativeRegionalIntegrationCaliforniaGreenhouseGasCompliancePaperPostedCall090616.html>

<sup>2</sup> Charter, Energy Imbalance Market Body of State Regulators at 1 (March 1, 2016) (“BOSR Charter”); Charter for Energy Imbalance Market Governance, Version 1.1, §5 (May 1, 2017) (“EIM Governance Charter”).

<sup>3</sup> BOSR Charter, Purposes and Responsibilities at 1.

compliance cost adder separately from their energy bids. When serving load outside of the ISO, the market dispatch considers only the energy bid. When serving load inside the ISO, the market dispatch considers the energy bid plus the GHG compliance cost adder.

The purpose of this Initiative is to address concerns that the EIM GHG market design is not capturing the impact on the atmosphere that occurs in connection with EIM transfers into the ISO to serve ISO load. This has been referred to as the secondary dispatch effect. After initially reviewing several potential design changes and stakeholder comments, in November of 2016, the ISO focused on developing a two-pass market design to identify the amount of each non-California resource used to serve ISO load. The first pass would determine counter-factual generation for non-California resources across the EIM footprint under an assumption that there are no transfers into the ISO. The second pass would restrict energy transfers from non-California resources to the ISO to the incremental generation above the amount determined in the first pass. The ISO would perform this two-pass solution in all day-ahead and real-time market runs.<sup>4</sup>

In the third quarter of 2017, some serious and credible concerns regarding the two-pass solution were brought to the CAISO's attention.<sup>5</sup> In light of these concerns, the CAISO is re-evaluating the two-pass proposal. Since the identification of these concerns, the CAISO held a two-hour stakeholder call on December 4, 2017.<sup>6</sup> During the last quarter of that call the CAISO presented several options for

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<sup>4</sup> CAISO Regional Integration California Greenhouse Gas Compliance and EIM Greenhouse Gas Enhancement Straw Proposal at 3 (November 17, 2016) ("November 2016 Straw Proposal").

<sup>5</sup> These concerns were raised in some of the comments to the revised Initiative, for example, by the CAISO Department of Market Monitoring, <https://www.caiso.com/Documents/DMMComments-EIMGreenhouseGasEnhancements-RevisedDraftFinalProposal.pdf>, and explained in some detail by economist William Hogan in a paper published in September of 2017. Hogan, William W., An Efficient Energy Imbalance Market with Conflicting Carbon Policies (September 28, 2017), available on the Initiative webpage: <https://www.caiso.com/informed/Pages/StakeholderProcesses/RegionalIntegrationEIMGreenhouseGasCompliance.aspx>

<sup>6</sup> California ISO Market Notice re: Rescheduled: Regional Integration and EIM GHG Compliance Attribution Accuracy Report Demonstration Call to 12/4/17, (November 21, 2017). <http://www.caiso.com/Documents/RescheduledRegionalIntegration-EIMGHGComplianceAttributionAccuracyReportDemonstrationCall-120417CommentDeadlineExtended.html>

discussion.<sup>7</sup> The CAISO seeks comments on the substance of the Initiative, as well as, the future schedule for the stakeholder process.

The BOSR will wait to provide a recommendation on any specific market change, until it has had an opportunity to adequately examine the implications of the concerns recently identified in the two-pass approach. However, the BOSR would like to take this opportunity to enunciate some key principles that should be applied to any option being considered for a market design change. The BOSR will apply these principles to evaluate any proposal offered by the CAISO that impacts the EIM market design.

- **The market design must be non-discriminatory** (i.e., not favor any specific generation technology). Any design change should ensure that, with respect to any purchase or sale of electric energy or transmission services, no party is subject to any undue prejudice or disadvantage. A market design change that unduly favors one type of generation resource over another would not be expected to provide the benefits of a competitive market.
- **The market design must support economic dispatch.** Part of the reason for the success of the EIM is the application of an efficient pricing mechanism that supports the dispatch. Under the simple dispatch framework, the prices are consistent with the dispatch and a price-taking competitive market participant has no incentive to change its offers or to deviate from the efficient dispatch. In addition, the EIM market design efficiently addresses imbalances in wind and solar generation. Any design change that creates incentives for market participants to manipulate offers and schedules should be avoided. A design change that creates an opportunity for gaming or market manipulation will negatively impact the benefits of a competitive energy imbalance market.

The EIM BOSR appreciates the opportunity to provide these comments and looks forward to a full and thorough evaluation of any proposal to change the market design.

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<sup>7</sup> These options were initially included for consideration, but two months after launching the Initiative, by November 17, 2016, CAISO made the decision to focus on the two-pass solution. November 2016 Straw Proposal, §4.3.