

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Carbon Pricing in FERC-Jurisdictional
Organized Regional Wholesale Electric
Energy Markets

Docket No. AD20-14

**COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
ON PROPOSED POLICY STATEMENT**

The California Independent System Operator Corporation (CAISO) submits these comments on the Commission's proposed policy statement issued on October 15, 2020 to (1) clarify the Commission's jurisdiction over regional transmission organization (RTO) and independent system operator (ISO) market rules that incorporate a state-determined carbon price and (2) encourage efforts to incorporate a state-determined carbon price in organized wholesale electricity markets.¹ As the proposed policy statement reflects, the CAISO has incorporated a carbon price into the design of the markets it operates, including the western Energy Imbalance Market (EIM) that spans multiple states in the West.² The Commission has reviewed and accepted these rules under the Federal Power Act.

The CAISO initially established market rules to allow scheduling coordinators for resources within the CAISO balancing authority area and resources importing to

¹ *Carbon Pricing in Organized Wholesale Electricity Markets* 173 FERC ¶ 61,062 (2020) (Proposed Policy Statement).

² *Id* at P 6.

serve demand in California to include the emissions costs of greenhouse gas (GHG) allowances as part of their energy bids. In addition, the Commission accepted CAISO market rules to incorporate the emissions costs of GHG allowances into the calculation of generating units' variable costs, providing generators a reasonable opportunity to recover their variable energy costs.³ These rules align with the California GHG program's use of resource-specific, unspecified source, and asset controlling supplier emission rates, which function to minimize emissions leakage associated with electricity usage by demand within the CAISO balancing authority area.

The EIM rules allow the CAISO to attribute which EIM participating resources support real-time transfers to serve demand in California and compensate EIM participating resource scheduling coordinators for their costs of compliance under California's GHG program.⁴ At the same time, the market design allows the CAISO to dispatch EIM participating resources to serve EIM demand outside of the CAISO without reflecting the costs of California's GHG program in locational marginal prices for resources serving that demand.

These rules will need to evolve as the CAISO and its stakeholders explore extending its day-ahead market platform to EIM participants. In an extended day-ahead market, participants will not submit base schedules from which the CAISO can assess MW quantities available from participating resources to serve demand

³ *California Independent System Operator Corp.*, 141 FERC ¶ 61,237 (2012); Letter Order dated February 26, 2013 in Docket ER13-219-001.

⁴ *California Independent System Operator Corp.*, 147 FERC ¶ 61,231 (2014); see also CAISO tariff at section 29.32.

in California. Given that, the CAISO and its stakeholders will need to develop new market rules under an extended day-ahead market that continues to leverage California's resource-specific, unspecified source, and asset controlling supplier emission rates. The CAISO and stakeholders may also need to develop market rules to consider carbon reduction programs developed by other states.

As part of the proposed policy statement, the Commission acknowledges several states have taken steps to set a carbon price associated for carbon emissions or take other actions such as establish a carbon emission reduction target.⁵ The Commission's proposed policy would encourage efforts to incorporate a state-determined carbon price into RTO/ISO markets. The CAISO agrees with this proposed policy. RTO/ISO markets should incorporate all costs associated with electricity production, including the costs established by state-determined carbon prices.

The Commission proposes to evaluate section 205 filings to incorporate a state determined carbon price into RTO/ISO markets using several factors.⁶ These factors include how a proposed market design changes depending on the manner in which a state determines a carbon price, how any market design ensures price transparency and enhances price formation, how location marginal pricing reflects a carbon price, how a carbon price affects the dispatch of resources and co-optimization of energy, and ancillary services. In addition, the Commission proposes to consider how any RTO/ISO market design to incorporate a state-

⁵ Proposed Policy Statement at P 3.

⁶ *Id* at P 16.

determined carbon price addresses economic or environmental leakage. Each of these factors may be relevant to some degree in the evaluation of any RTO/ISO market design to incorporate a state-determined carbon price.

The Commission should also consider that RTOs/ISOs and their stakeholders will need flexibility to design market rules to accommodate different state programs that seek to reduce carbon emissions. In some cases, these state programs may have different carbon prices. In other cases, state programs may seek to reduce carbon emissions by tracking renewable energy credits associated with serving load instead of placing an explicit price on carbon emissions. Some states participating in an RTO/ISO region may not adopt a carbon emissions reduction program.

In light of this range of approaches, any proposal filed by an RTO/ISO to reflect a state-determined carbon price in its market may need to balance the objectives of market efficiency and accurate emissions tracking. An RTO/ISO market optimization cannot determine what output from a specific resource is serving what specific electric demand on the system. Absent a uniform carbon price that applies across an RTO/ISO region, the Commission will need to assess how any market design meets the objective of securing the least cost dispatch among resources participating in a wholesale electricity market that are subject to a carbon price, as well least cost dispatch of resources that are not. RTO/ISO market rules may also need to address the objective of accurately tracking resource emissions that occur based on electricity usage within a particular state. The Commission should weigh these considerations in any determination of whether an

RTO/ISO market design to incorporate a state-determined carbon price is just and reasonable and whether it is not unduly preferential or discriminatory.

Respectfully submitted,

By: /s/ Andrew Ulmer

Roger E. Collanton

General Counsel

Anthony Ivancovich

Deputy General Counsel

Andrew Ulmer

Director, Federal Regulatory Affairs

California Independent System

Operator Corporation

250 Outcropping Way

Folsom, CA 95630

Tel: (916) 608-7209

Fax: (916) 608-7222

aulmer@caiso.com

Dated: November 16, 2020

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 16th day of November 2020.

/s/ Anna Pascuzzo

Anna Pascuzzo