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Comments of PacifiCorp on the EIM Greenhouse Gas Enhancement

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Introduction

PacifiCorp hereby submits the following comments to the California Independent System Operator Corporation (ISO) on its EIM Greenhouse Gas Enhancement Revised Draft Final Proposal (Revised Draft Final Proposal) published June 23, 2017.

The ISO Should Assess Market Impacts of Two-Pass Optimization Proposal

PacifiCorp continues to have high-level concerns that the ISO is moving forward with the two-pass optimization proposal before transparently analyzing or addressing whether and how this proposal will impact: 1) EIM least-cost economic dispatch; 2) EIM settlement prices; or 3) EIM benefits. To support this proposal on behalf of its customers, PacifiCorp needs additional information and analysis, and greater assurances from the ISO that least-cost dispatch will be preserved and that PacifiCorp's customers outside of California will not be negatively impacted in an unwarranted way by this change driven by California's environmental policies. In particular, PacifiCorp is concerned that the simplifications made in the first pass of the optimization to ensure that the market can operate every five minutes will result in disruption to the market. Given the complexity of introducing a two-pass optimization, PacifiCorp is concerned that there will be additional unforeseen and unintended consequences associated with this approach.

PacifiCorp's concern is only enhanced by the ISO's explanation for changes made in the Revised Draft Final Proposal. In discussing the changes in the Revised Draft Final Proposal, the ISO notes that it is making the change proposed to ensure balance between the objective of minimizing secondary dispatch with optimization solution performance and price / dispatch consistency. However, the original May 24 draft final proposal contained no analysis or discussion of optimization solution performance or price and dispatch consistency associated with the two-pass optimization. Stakeholders are left to conclude that the original proposal created performance issues that were not discussed or addressed in the proposal and to continue to question what further unmentioned market performance issues may remain. PacifiCorp simply cannot support the proposed solution in the absence of more transparent information from the ISO regarding market performance impacts.

If there is a price impact associated with this proposal, stakeholders will want to consider whether the price impact is worth the change. As PacifiCorp has raised elsewhere, the ISO's proposal is an extremely complex solution to an issue that, even by the assessment of the California Air Resources Board (ARB),[1] represents a very small portion of California's overall emissions cap. Stakeholders should be empowered to understand whether they are effectively accepting higher prices to achieve an environmental objective, as that objective is defined by ARB. It has long been PacifiCorp's perspective that ARB's assertion that under Assembly Bill (AB) 32 it must regulate all emissions with a causal connection to California load ("backfill" emissions) is not legally supported. While not repeating those arguments here, stakeholders will need to be assured that a proposal such as this, if it does result in higher prices, is truly mandated by state law.

In its proposed schedule, the ISO notes that in Q4 2017 the ISO will produce a report on greenhouse gas attribution accuracy. PacifiCorp recommends that the ISO also produce an accuracy report on the results of the least-cost dispatch outcomes as well as assessments of market impacts and market performance. Alternatively, the ISO should provide confirmation to stakeholders that this exercise is solely to refine the accuracy of the GHG attribution and that the EIM market dispatch algorithm will not be modified and will continue to function exactly the same as it does today. PacifiCorp further recommends that the ISO develop a clear off-ramp for the two-pass optimization in the event there are unintended consequences once it is implemented.

Concept of Allocation Base for "California Supply"

In the Revised Draft Final Proposal, the ISO supplies additional detail with respect to the concept of "California supply" which the ISO defines as resources contracted with an ISO load-serving entity. Under the ISO's proposal, resources identified as California supply will effectively be exempt from the first pass of the optimization to ensure that they may be selected to serve California load in the second pass. While PacifiCorp understands the issue and agrees that, absent a solution, the two-pass optimization may be flawed in that it would result in all non-emitting resources, such as solar and wind, that have very low economic bids always being selected to displace thermal resources in the non-California balancing areas in the first pass of the optimization. However, PacifiCorp is concerned about the unintended consequences of allowing a subset of resources to be effectively exempt from the first pass optimization. The ISO should provide analysis as to how this will impact least-cost dispatch and EIM settlement prices.

In the May 31st stakeholder meeting, the ISO indicated that entities may flag resources on an hour-ahead basis as constituting California supply. However, the ISO explained that this flag must be on specific resources and cannot accommodate system sales to California. At the stakeholder meeting, it was suggested that entities with system sales to California could come up with a reasonable formula for designating resources as California supply. This approach is problematic in that it may essentially require the designation of specific resources serving California load that will ultimately conflict with the ARB requirements for reporting specified imports. The outcome will be a discrepancy between what is reported to ARB and what is flagged in the ISO's market optimization as California supply. This is unlikely to be acceptable

[1] https://www.arb.ca.gov/regact/2016/ghg2016/attachb.pdf

to ARB and may create compliance concerns for reporting entities such as PacifiCorp. PacifiCorp recommends that the ISO work with ARB to determine an acceptable methodology for the treatment of system unspecified sales to California. In addition, PacifiCorp recommends that the ISO work with ARB to establish parameters regarding what may be considered California supply. Since California supply is exempt from the first pass of the optimization, this exemption should only be claimed where it is appropriate to do so. Without parameters or guidance for what may be identified as California supply, there may be too much discretion for market participants to unintentionally use this option inappropriately.

Conclusion

PacifiCorp appreciates the opportunity to submit these comments and looks forward to continuing to work with the ISO on resolving this complex and challenging issue.