

Western Power Trading Forum (WPTF) Comments on EIM GHG Design Second Revised Draft
Final Proposal

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WPTF is pleased to submit these comments on the CAISO's EIM GHG Design Second Revised Draft Final Proposal, dated February 20, 2018. WPTF appreciates the ISOs continued efforts on this initiative. Yet given the recent change of direction, WPTF can no longer support the proposal in its entirety. While one aspect of the proposal could conceivably move forward independently of the entire design change, WPTF strongly urges the ISO to continue discussions with stakeholders to develop an appropriate bidding/pricing mechanism that does not adversely impact market efficiency.

Given that CARB has already implemented an interim solution to address emissions associated with secondary dispatch under the cap and trade program, there is no urgency to move ahead with redesign of the EIM. The ISO should use additional time to evaluate and explore options to ensure development of an appropriate solution that can withstand extension to other state carbon programs and or a day-ahead market. The process could benefit from the ISO integrating with this discussion discussions of the day-ahead market changes and expansion of the EIM functionality into the day-ahead market; it would be unfortunate for the ISO and stakeholders to devote time and effort into created a solution that once the foreseen day-ahead changes are implemented would be rendered obsolete or insufficient.

Limiting the MW quantity of an EIM resource that can be attributed as serving California load by its base may be workable but additional consideration is needed as to how this would work in a day-ahead market. Throughout these EIM stakeholder processes the concept of not attributing for import a resource's entire output (including generation reflected in a submitted base schedule) was never controversial; most stakeholders supported this recognition and viewed it as an improvement to more accurately calculate EIM generation that was deemed delivered to California. While the currently proposed method for limiting attribution to EIM resources based on the difference between an EIM resources max output and base schedule can be seen as an improvement over today, WPTF believes the two-pass approach resulted in a more economically sound method. Thus, WPTF is not opposed to the ISO moving forward with an enhancement that addresses the quantity of imports deemed but does believe more time is needed to work with stakeholders on the pricing/bidding elements of the proposal, as well as potential extension to a day-ahead market.

In particular, WPTF questions how the output of an EIM resource may be deemed deliverable to CAISO in a day-ahead market. On slide 6 of the presentation for the February 22nd webinar, the ISO indicates that if day-ahead market were extended to EIM entities, that self-schedules will be used in lieu of base schedules to determine the maximum GHG quantity. This proposal would seem to be subject to the same concerns about potential market manipulation that were raised with respect to the two-pass solution.

WPTF does not support a design that would require resource costs to be inaccurately reflected in the market to address a concern that is driven by state policy differences. The ISO's proposal requires all EIM resources to reflect, at a minimum, a GHG cost that is the product of a computed emissions rate and the ISO's daily GHG index. Even given that in practice this will only be a binding minimum requirement for EIM resources that have an emissions rate less than the computed emissions rate, it still acts as a hurdle rate in that the ISO is requiring all EIM resources to bid GHG costs at or above a cost that reflects a predetermined emissions rate. Imposing a GHG bid floor on EIM resources is, in effect, a hurdle rate design

without calling it such. This quasi-hurdle rate design has the same detrimental impacts on market efficiency as the pure hurdle rate option already considered and subsequently dismissed. As such, hurdle rates have a strong propensity to distort market results and produce incorrect prices signals. Furthermore, the proposal is forcing resources to inaccurately reflect its resource-specific costs since the computed emissions rate will knowingly misrepresent the emissions rate for which the floor bid price will be binding (i.e. non-emitting resources). Lastly, this concept of applying a minimum emissions rate is based on an inaccurate assumption. On the stakeholder call the ISO justified the application of the bid floor in that it is intended to capture all instances of when secondary dispatch occurs. However, this inaccurately assumes that secondary dispatch occurs whenever there is a net transfer into the ISO. The ISO should not be implementing a GHG market design that would distort its model that otherwise operates correctly from an economic perspective.

Imposing a minimum GHG bid adder on a subset of non-emitting resources has discriminatory aspects.

The proposal will cause non-emitting EIM resources to appear more expensive than non-emitting resources within California and more expensive relative to some emitting non-California resources, thus putting the non-emitting EIM resources at a disadvantage. Take for example two wind resources, one inside CA and the other outside of CA, both have zero GHG costs and thus, absent congestion and losses, the market should see them as equally economic. However, under this proposal the wind resource outside CA will now be forced to inaccurately reflect a non-zero GHG cost and thus becomes less economical to the market optimization than the same resource located within California. Rather than instill such a discriminatory outcome, the ISO should re-evaluate modifications to the previously discussed two-pass approach or simply rely upon CARB's current interim solution while other potential solutions are considered.

The ISO should capitalize on the afforded time to ensure a robust design is developed that can be adapted to forthcoming market changes.

A robust design is one that would, in addition to the elements discussed above, be able to effective under a multi-GHG regime paradigm and under the potential expansion of the day-ahead market to the EIM. As discussed in WPTF's previous comments, even though regionalization is not in the foreseeable future, a multi-GHG regime paradigm is quite possible on the horizon given the proposed legislation in Oregon and Washington. Simply expanding a hurdle rate design to multiple GHG regimes will result in exacerbated market distortions rather than the intended improvement of accurate pricing.

Thank you for your consideration of these comments.

