

Western Power Trading Forum Comments on Regional GHG Issue Paper

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WPTF appreciates the opportunity to provide comments on the CAISO's Regional GHG Issue paper issued August 29, 2016. GHG policy under a non-California-centric model is an important issue, and we appreciate the ISO addressing this issue at this time. We note that issues regarding the assignment of electricity and associated emissions to California load that arising in the EIM will also need to be resolved for regional ISO. Incentives to send lowest cost/lowest emissions resources to California is inherent in CA cap and trade program without similar programs in the West. It may not be possible to overcome these incentives through a California-only program, while also avoiding the imposition of carbon costs on non-California markets and still achieving efficient market outcomes.

In these comments we offer feedback on the policy process, some overall market design principles that we believe important for consideration of any policy, a request for some additional information, and some additional feedback related to aspects the ISO raised in its issue paper.

Process Feedback

WPTF is concerned that the regional GHG design will require both the CAISO and the California Air Resources Board (ARB) to approve the policies. While WPTF appreciates the ISO's initiative WPTF believes it critical that ARB participate in parallel with the design process such that adopted policies will be supported at both organizations. WPTF would like the ISO to reach out to ARB and for the organizations to collectively arrive upon a process timeline that has the ARB also processing and approving the policies as they work their way through the development process.

Market Design Principles

Given that the CAISO is designing a GHG mechanism that is envisioned to be sustainable into the future for some time WPTF believes certain fundamental principles should be upheld. These include the following.

- ***Electricity Import rules should be consistent across power markets.*** Rules for the treatment of electricity imports into California have already been changed to accommodate the Energy Imbalance Market. (EIM). This has led to disparate treatment of imports across the electricity markets: emission obligations are assigned on the basis of NERC e-tags, and contracts for energy imported via California Independent System Operator markets (non-EIM) and bilaterally; emission obligations for energy imported via the EIM are attributed to specific resources based on a computer algorithm.

The CAISO and ARB should work to ensure consistent and equitable treatment of electricity imported into the state across all markets in order to provide appropriate carbon price signals, avoid electricity

market distortion, and avoid incentives for external resources to participate in one market instead of another to reduce carbon obligations.

- ***Rules for attribution of electricity to California/non-California load should not discriminate.*** Rules for attribution of electricity to California/non-California load should not discriminate between California and external resources in providing opportunity to serve California load to the extent possible. A rule that assigns the least cost energy bid or the least emission bid to non-California load first, could discriminate against the ability of low emission resources to get to California and capture the carbon premium. If such a rule were implemented, then for fairness we should have a rule that also allows a resource to bid to serve load in California only.
- ***GHG policies should not result in an increase in carbon over the footprint.*** Policies aimed at assignment of carbon costs and allocation of dispatched electricity to serve California load should avoid an increase in emissions in the market footprint due *solely* to displacement of generation from a California resource to a non-California resource based on carbon adders.
- ***User's Choice.*** Determination of whether and what portion of the output of a resource may be deemed delivered to California should be made by bidder, not by administrative rules.

Information Request

WPTF would find it helpful to have more information about gross flows through California that are tagged through the CAISO and expect that other stakeholders may also find this information useful.

WPTF would like to request that the CAISO provide monthly gross, aggregated final (or FMM) tagged interchange quantities for CAISO interchanges between non-California BAAs and excluding - or separately identifying – wheeled through quantities, and excluding EIM transfers. This information will be helpful in parties' understanding of the differences between gross and net carbon accounting.

Other Issue Paper Feedback

WPTF offers additional specific feedback on the CAISO's proposal.

- **Net interchange** - WPTF supports the CAISO's pursuit of an approach of net interchange accounting for assignment of electricity to California load consistent with the current EIM treatment across all markets. WPTF recognizes this requires some collaboration with ARB to address their concerns. We ask the ISO to take on this issue directly and to develop a strategy for working with ARB on what policy changes may be needed on their end in support.
- **Self Schedules** – WPTF cautions against firm administrative rules that deem in a binary way what self schedules are used for by SCs. WPTF agrees that treatment of self schedules requires some additional consideration given their lack of economic bids. We encourage the CAISO to consider

the possibility of a bid adder structure on self schedules despite their lack of economic bidding for the energy. The treatment of self schedules certainly requires further consideration.

- **Existing Interties** – WPTF does not believe that existing interties can – by default – be deemed to be “inside California”. At a minimum there is load that currently exists outside of California that is served through existing ties. As such a solution that treats all ties universally rather than deeming some “inside” or “outside” California is appropriate.
- **Addressing multiple States’ GHG Programs** – WPTF offers two points related to concerns that the CAISO may need to have varying structures for differing states’ GHG programs.
 - There should be no reason for multiple bid adders. The need for a bid adder is only driven by California carbon requirement on imports to California and is independent of what other states are doing. Because of that only one bid adder should be required irrespective of which other state the energy is imported from.
 - The CAISO may need to be cognizant of other states’ GHG programs when clearing the market if it has local market power mitigation that would mitigate a bid to a cost basis. If a resource in another state has a carbon obligation in its own state the CAISO would need to recognize this fact in its own market power mitigation regimes.

Thank you for your consideration.