

Comments on Greenhouse Gas Coordination July 21, 2025 Working Group Meeting

Department of Market Monitoring

August 20, 2025

Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the Greenhouse Gas Coordination Working Group meeting held on July 21, 2025, and the *Accounting and Reporting Draft Final Proposal* released on July 18, 2025.^{1,2} The working group meeting focused on identifying the differences between the straw proposal and the draft final proposal. The draft final proposal presents the accounting and reporting approach in full, while also identifying key differences between the straw proposal and the draft final proposal.

DMM continues to support the proposed accounting and reporting approach as a near term means of incorporating non-priced greenhouse gas (GHG) policies into the EDAM and WEIM markets. The accounting and reporting approach would provide entities with a tool to track emissions for compliance with non-priced GHG regulations and voluntary goals. The primary advantage of the accounting and reporting approach is that it is a non-market process that allocates GHG emissions after the market runs and, as such, would likely have no direct market impact.

DMM supports the non-market accounting and reporting approach as a near-term implementable solution. However, we also recommend that the working group continue to explore the need for an in-market approach to resolving the scheduling and dispatch challenges posed by non-priced GHG policies, and develop such an approach as a future enhancement if deemed necessary.

DMM supports many of the changes in the draft final proposal because they improve the transparency and flexibility of the accounting and reporting approach for a wider range of resources and reporting entities. However, we note that the change to make reporting of out-of-market and WEIM non-participating resources optional may reduce the accuracy of the residual rate.

Comments

DMM continues to support the accounting and reporting approach

DMM continues to support the development and implementation of the accounting and reporting approach. This approach would enable market participants to monitor and track GHG emissions for the

¹ GHG Coordination Working Group meeting materials:

<https://stakeholdercenter.caiso.com/StakeholderInitiatives/Greenhouse-gas-coordination-working-group>

² *Greenhouse Gas: Accounting and Reporting Draft Final Proposal*, California ISO, July 18, 2025:

<https://stakeholdercenter.caiso.com/InitiativeDocuments/Greenhouse-Gas-Coordination-Accounting-and-Reporting-Draft-Final-Proposal.pdf>

purpose of satisfying regulatory requirements and voluntary emissions goals. This approach appears to largely address the need for a transparent accounting mechanism for allocating GHG emissions for load serving entities (LSEs) in areas with non-priced GHG regulations or that have adopted voluntary programs.

One of the primary advantages of this approach is that it is entirely out-of-market and relies on after-the-fact data to allocate GHG emissions in areas without priced GHG regulations. Such an approach would likely have minimal direct market impacts. Therefore, the out-of-market accounting and reporting approach carries with it a smaller risk of unanticipated consequences when compared to an in-market approach, because it does not introduce new constraints, or otherwise directly transform how the market optimization functions.

A limitation of the accounting and reporting approach is that it does not directly provide a solution to the potential need to constrain dispatch to ensure that entities in locations with non-priced GHG policy meet their obligations. Further, an out-of-market approach could lead to market inefficiencies. Without an in-market solution, LSEs may be forced to procure and self-schedule higher-cost non-emitting resources to ensure regulatory compliance, when lower-cost non-emitting resources could have served load via transfers from other balancing areas.

It should be noted that the accounting and reporting approach would provide important information which would enhance a LSE's ability to plan for future non-emitting capacity procurement and generation fleet needs. The reports generated by the accounting and reporting approach could also provide a strong basis to evaluate the need for an in-market dispatch constrained solution for entities in areas with non-priced GHG regulations.

As stated in DMM's comments dated August 12, 2024, DMM agrees with the ISO that incorporating an in-market solution requires significantly more analysis to understand the market implications in full.³ DMM also recognizes that the choice between in-market and out-of-market solutions to GHG emission and energy accounting for non-priced GHG regulation areas involves several trade-offs. DMM recommends that the ISO discuss those trade-offs with regulatory bodies and market participants. DMM also recommends that stakeholders and the ISO continue to explore whether an in-market dispatch constrained solution is needed, and what form potential in-market solutions could take.

The accounting and reporting approach leverages existing market data to assign emissions to reporting entities

At a high level, the accounting and reporting approach compares a reporting entity's load to its dispatched, contracted, and owned generation on an hourly basis, tracks the emissions associated with that generation, and nets out the generation attributed to GHG pricing regions.

³ *Comments on Greenhouse Gas Coordination 7-29-2024 Working Group*, Department of Market Monitoring, August 12, 2024: <https://www.caiso.com/documents/dmm-comments-on-greenhouse-gas-coordination-jul-29-2024-working-group-aug-12-2024.pdf>

- If, after GHG attribution adjustment, a reporting entity's owned and contracted generation exceeds its load, its excess generation will be allocated to the residual rate based on their selected methodology.
- If, after GHG attribution adjustment, a reporting entity's owned and contracted generation is less than its load, none of its generation will contribute to the residual mix and the reporting entity will be allocated GHG emissions from the residual rate.
- For reporting entities that overlap with GHG pricing regions, there are generation adjustments for the sharing of GHG with the GHG pricing regions the reporting entity overlaps with.

This accounting process leverages existing market data, WEIM participating resource data, and the contracted resource data provided by the reporting entities. This data is used to determine the emissions associated with a reporting entity's owned and contracted generation, the calculation of a residual rate based on the emissions from excess energy, and the assignment of excess energy emissions to reporting entities on the basis of the load not covered by owned or contracted generation.

The accounting and reporting approach does not manage resource dispatch or emissions thresholds

The current market design only attributes GHG emissions to generation serving load in priced GHG regulation areas. A mechanism to assign emissions to entities in regions with non-priced GHG regulations does not yet exist in CAISO markets. This poses two challenges:

1. There is not an in-market mechanism to constrain dispatch to prevent attributed emissions from exceeding a load serving entity's (LSE's) emissions threshold, and
2. Unspecified transfer emissions may pose challenges for LSEs and other market participants seeking to track progress towards satisfying state GHG regulations or other GHG emissions goals. The limited ability to track progress on meeting regulatory or voluntary GHG related goals also limits market participants' ability to optimize their portfolio of resources and energy contracts to meet those goals.

The accounting and reporting approach described in the draft final proposal addresses the second concern by introducing a method for allocating emissions to reporting entities.⁴ The approach is wholly out-of-market and uses a combination of post-facto market dispatch data and reporting entity ownership and contracting data to allocate emissions to reporting entities. DMM supports this approach to addressing the second concern listed above, but DMM continues to recommend that the ISO and stakeholders continue to explore whether an in-market solution is warranted for the problems that arise from the first issue.

⁴ Reporting entities are entities that participate in CAISO markets that choose to use the accounting and reporting approach and associated reports.

Changes in the draft final proposal may decrease the accuracy of the residual rate, but generally appears to increase transparency and flexibility of the accounting and reporting approach

Accounting for non-participating and out-of-market generation and null power

One of the draft final proposal's key differences from the straw proposal is how the accounting and reporting approach will deal with non-participating, out-of-market procured generation, and null power.⁵ For these elements of generation accounting, the ISO modified its proposal to increase the flexibility of how generation in those categories is accounted for by each reporting entity. The apparent need for additional flexibility in how those items are reported is due to the variation in reporting requirements between states and individual reporting entities. DMM recognizes that the accounting and reporting approach is designed as a tool to facilitate accurate reporting for non-priced state regulatory and voluntary GHG emissions programs, and that the reporting requirements vary. However, the introduction of flexibility into reporting requirements may lead to less accurate estimations of the residual rate or more ambiguous reporting categories.

One such change from the straw proposal was that the reporting of out-of-market and WEIM non-participating resources became optional. These resources present reporting challenges because the ISO would lack output information and emissions rate data, due to the lack of internal dispatch and Master File data for those resources. Furthermore, the regulatory bodies that reporting entities report to may have differing approaches to accounting for out-of-market resources.

While DMM recognizes the variation in regulatory requirements and the ISO's lack of visibility into out-of-market and WEIM non-participating resources, it is important to recognize that not requiring the reporting of these resources reduces the accuracy of the residual rate. The reduced accuracy comes from the possibility that a reporting entity's excess energy status may be contingent on their unreported energy. Including out-of-market or WEIM non-participating energy may mean the reporting entity would have excess energy that would contribute to the residual rate. This would in turn affect the emissions rate mix used to determine the value applied to other reporting entities. Because of this, DMM believes that for the sake of transparency and accuracy, the required reporting of out-of-market and WEIM non-participating energy is the better option. We do, however, appreciate reporting entities' need for flexibility due to differences in regulatory requirements and, considering the out-of-market nature of the accounting and reporting approach, see this as a reasonable path forward.

The ISO also opted for a more flexible approach to resolving the complications of accounting for null power. The ISO notes in the draft final proposal that there are differing approaches to reconciling null power between regulatory bodies. The ISO in its proposal opted to provide parallel reports that report generation totals, and separately list unconfirmed transactions and null power, which will enable reporting entities to account for null power and unconfirmed renewable energy certificates (RECs) in line with their respective regulatory requirements. DMM supports this resolution to the issue of how null power is accounted for because it enhances flexibility while also maintaining transparency.

⁵ Null power refers to generation without renewable energy certificates (RECs)

Climate regions

The draft final proposal also removed the possibility of forming climate regions that would enable reporting entities to share excess energy and the associated emissions. The climate region would effectively create a carve-out from the overall residual rate for the reporting entities that participate in the climate region. This carve-out would likely affect the ultimate residual rate because the carve-out would change the generation mix that composed the residual rate and the associated emissions. DMM agrees that the simplified approach without climate regions should be used until a clearer framework for forming climate regions is developed, and the potential impacts of climate regions on the overarching residual rate is studied in more detail.

Emissions calculations

DMM agrees with the ISO's decision to require the registration of emissions factors for reporting entity resources in Master File in accordance with the rules relevant to their regulatory environment. This is in contrast to past proposals, which contemplated a separate emissions reporting process that would allow reporting entities to avoid coordination problems associated with working with scheduling coordinators. The primary benefit of using Master File is that it is covered by the ISO's existing tariff requirements and rules regarding confidentiality and accuracy.

The ISO also altered the proposed accounting approach for charging load of energy storage resources owned by reporting entities that do not have other load. Previously, the ISO proposed to account for energy storage resources' charging as a load adjustment. However, this accounting method did not consider that some reporting entities, such as independent power producers, may own storage resources but do not have other load. For such resources, the new method would assign emissions to storage charging based on the energy that serves them:

- Standalone storage resources are only assigned the residual rate
- Hybrid resources are assigned the emissions rate associated with the non-storage components
- Co-located storage resources are treated as hybrid resources when the off-grid charge indicator is enabled, and assigned the residual rate when it is not

DMM agrees that modeling emissions for storage charging by reporting entities without other load is reasonable and accurately represents the likely emissions associated with those entities.