

Comments on Greenhouse Gas Coordination Discussion Paper and 9-19-2024 Working Group Meeting

Department of Market Monitoring

October 10, 2024

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the ISO's *Greenhouse Gas Coordination Discussion Paper* and 9-19-2024 working group meeting.^{1,2}

The presentation in the working group meeting focused on further clarifying and specifying the accounting and reporting approach to address non-priced GHG policies in the extended day-ahead market (EDAM); presenting new GHG market design training resources; and reviewing market participant data requirements and possible approaches to meet them. The ISO also released a discussion paper regarding GHG policy, which summarized the stakeholder recommendation for policy development.³ The paper clarified that the topic of addressing non-priced GHG and clean energy policies and voluntary goals will advance to the policy development phase, while other topics will remain in the working group for additional discussion.

The working group and the ISO propose to move forward with the accounting and reporting approach as an initial solution to incorporate non-priced GHG policies into the EDAM framework. DMM continues to support the further development of the accounting and reporting approach as a near-term means of incorporating non-priced GHG policies into the EDAM framework.

The accounting and reporting approach, as it currently stands, is a wholly out-of-market approach that leverages existing data. This approach enhances existing processes and data related to how utilities claim committed energy prior to market dispatch, and how it is assigned to load serving entities after dispatch. The primary benefit of this approach is that it attributes GHG emissions after the market runs, and as such would likely have minimal direct market impacts.

DMM also supports continuing to explore the potential use of an in-market emissions constrained approach. An in-market approach may result in more efficient outcomes. However, the use of such an approach also introduces risks and concerns regarding how the emission constraint would interact with other facets of the market. DMM agrees with the ISO that incorporating an in-market constraint requires significantly more analysis in order to understand all of the market implications. DMM 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 a number of trade-offs, and recommends that the ISO discuss those trade-offs with regulatory bodies and market participants.

Regarding the topics remaining in working group discussion, DMM supports the ISO working to develop metrics that accurately measure and report leakage and/or secondary dispatch. DMM agrees with ISO's

¹ Greenhouse Gas Coordination Working Group meeting, September 19, 2024:

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

² *Greenhouse Gas Coordination Discussion Paper: Stakeholder Recommendations for Policy Development*, California ISO, September 16, 2024: <https://stakeholdercenter.caiso.com/InitiativeDocuments/Discussion-Paper-Greenhouse-Gas-Coordination-Sep-16-2024.pdf>

³ Ibid.

assertion that secondary dispatch, as defined by the ISO, may occur for reasons other than leakage, including economic displacement and decreases in load forecast. DMM continues to highlight that because resource base schedules are not optimized and do not account for optimal transfers between non-GHG areas, using base schedules as a counterfactual to determine leakage in the Western Energy Imbalance Market (WEIM) is problematic. The GHG reference pass in EDAM will provide a more appropriate counterfactual for analyzing leakage, as it provides optimized schedules that include optimal transfers between non-GHG balancing areas.

In addition to the issues discussed above, the ISO's discussion paper raised the issue of whether the counterfactual should be calculated at the balancing authority area (BAA) level, allow transfers within groups of BAAs, or allow economic transfers across the entire non-GHG regulation area.

If non-GHG regulation area transfers are not optimized in the GHG reference pass, each non-GHG area BAA is more likely to have excess capacity in the reference pass, such that low-emission capacity from those BAAs could be attributed to GHG areas. By design, the market optimization will prioritize attributing available low-cost renewable generation to GHG areas to minimize total costs of serving load in an interval. Therefore, most excess low-cost renewable energy will likely be attributed to GHG areas.

This could result in lower GHG cost to GHG regulation areas, but could lead to increased secondary dispatch, including leakage. Alternatively, when non-GHG transfers are included in the GHG reference pass, there may be less excess capacity in each BAA, and low-emission capacity may be attributed more widely across the region. This may lead to higher GHG costs to GHG areas, as low-cost renewable energy in non-GHG BAAs may be dispatched to serve other non-GHG areas.

The decision to include non-GHG transfers in the GHG reference pass is a trade-off between these two market outcomes. Constraints and market designs aimed at limiting secondary dispatch and leakage impose costs to the market. DMM recommends that the ISO work with stakeholders and regulators in GHG areas to ensure they understand this trade-off.