

**JOINT COMMENTS OF THE EIM ENTITIES
EIM GREENHOUSE GAS ENHANCEMENT
DRAFT FINAL PROPOSAL
July 6, 2017**

A. INTRODUCTION

Energy Imbalance Market (“EIM”) current and future participants, Seattle City Light, Portland General Electric, Idaho Power, Arizona Public Service, and PacifiCorp (“EIM Entities”) hereby submit the following comments to the California Independent System Operator (“ISO”) regarding the EIM Greenhouse Gas (“GHG”) Enhancement Revised Draft Final Proposal issued on June 23, 2017 (“Revised Draft Final Proposal”). The identified EIM Entities appreciate the opportunity to provide comments for consideration by the ISO.

B. COMMENTS

1. The EIM Entities request the ISO Provide Additional Information or Confirmation Regarding the Market Impacts of its Proposal

In the Revised Draft Final Proposal, the ISO lists a set of principles that guided its proposal to develop a two-pass market optimization. This new optimization run would determine the optimal dispatch outside of California in the first pass, and then in the second pass would allow incremental dispatches of external resources into California, similar to how the single pass optimization works in the EIM today. One of these principles is to mitigate the impact of the ISO market’s GHG tracking mechanism on the ISO market’s prices for electricity to serve load outside of California. The EIM Entities strongly support this principle. The EIM Entities believe it is critical to the success of the ISO’s proposal, and the EIM in general, that prices for electricity to serve load outside of California are not inappropriately impacted by this proposed change to the market optimization. The EIM Entities are not able to assess, however, whether this principle will likely be met based on the current information provided: the ISO provides little detail in the Revised Draft Final Proposal with respect to any price impacts inside or outside of California that are possible or likely following the implementation of the two-pass optimization. A price impacts analysis goes beyond an assessment of whether GHG costs will be included in settlement prices outside of California. The analysis should review changes to the dispatch itself that may alter or modify the resulting energy prices outside of California. While the EIM Entities understand that the ISO intends to conduct significant market testing before implementation, the EIM Entities believe it is critical at the Revised Draft Final Proposal stage that market participants have greater information regarding the ISO’s preliminary assessment of impacts to the market. If the ISO believes that price impacts will be mitigated by certain aspects of the proposal, the EIM Entities request that the ISO further clarify why this is the case. Similarly, to the extent there is any potential for market pricing outside California to be impacted by the two-pass market optimization, the EIM Entities request the ISO provide a reasonable estimate of those impacts to allow an informed assessment of the proposal. This assessment should go beyond forecasting the accuracy of the GHG attribution to include an assessment of the expected accuracy of the least-cost economic dispatch as compared to the current model. Alternatively, the ISO should confirm that the EIM dispatch algorithm will not change and will function in the same manner that it does today.

2. The Optimization Problem with “California Supply” May Require Further Refinement

Conceptually, the EIM Entities support the ISO’s approach to identifying certain “California supply” obligations outside the EIM so as to avoid the GHG attribution distortion that could result if low-cost non-emitting resources that are contracted to serve California load were to be selected to serve load outside of California in the first pass of the optimization. This approach would avoid the issue of creating a disincentive for entities to participate in the market if their resources had a very low likelihood of being designated as serving California load. However, there are two improvements that the EIM Entities recommend for the “California supply” concept in the ISO’s Revised Draft Final Proposal. First, entities should be allowed to designate a quantity of a resource as “California supply” instead of flagging the entire resource. This is to accommodate situations where the total output of a resource is not contracted to serve California load. This will also avoid an outcome where there are discrepancies or double-counting between what is designated as “California supply” in the EIM and what is reported to the California Air Resources Board (ARB) as part of its mandatory reporting program for the forward market. Second, the EIM Entities recommend that some criteria be developed for determining what may be considered “California supply”. As “California supply” will be exempt from the first pass of the optimization, this exemption should only be claimed where it is appropriate to do so. Some parameters or guidance for what type of forward market transactions would qualify as “California supply” is needed in order to assess the validity of this approach.

C. CONCLUSION

The EIM Entities are grateful for the opportunity to submit these comments and appreciate the ISO’s consideration of them.