

California Independent System Operator Corporation

Comments of the California ISO on Rulemaking - Chapter 173-446 WAC, Climate Commitment
Act Program



July 15, 2022

Joshua Grice
Washington Department of Ecology
Air Quality Program
P.O. Box 47600
Olympia, WA 98504-7600

RE: Rulemaking - Chapter 173-446 WAC, Climate Commitment Act Program

Dear Mr. Grice,

The California Independent System Operator Corporation (CAISO) offers these comments to explain (1) how it can support reporting requirements for Western Imbalance Energy Market (WEIM) transactions under Washington's Climate Commitment Act for emission year 2022;¹ and (2) the scope and schedule of a CAISO stakeholder initiative to identify market rule changes to recognize Washington's cap-and-invest program to support compliance under the program by first jurisdictional deliverers. As explained in these comments, the CAISO recommends the State of Washington not impose compliance obligations on WEIM transactions used to serve load within Washington until mechanisms are in place to identify the first jurisdictional deliverer for these transactions.

I. Background on the CAISO

The CAISO operates a wholesale electricity market to balance supply and demand across the high-voltage transmission grid for much of California and parts of Nevada. The CAISO also operates the WEIM, which allows entities throughout the Western Interconnection to participate in the CAISO's real-time market. Since its launch in 2014, the WEIM has enhanced grid reliability and generated over \$2 billion in benefits for its participants through economic transfers of electricity. These benefits

¹ The CAISO anticipates implementing changes for the 2023 reporting year, and will support 2022 reporting to the extent possible.

greatly exceed the cost of participation. Besides its reliability and economic benefits, the WEIM improves the integration of renewable energy thereby decreasing emissions. Several entities operating within Washington currently participate in the WEIM, including Avista Corporation, Bonneville Power Administration, PacifiCorp, Puget Sound Energy, Seattle City Light, and Tacoma Power. These entities engage in electricity transactions through the WEIM to serve electric loads in Washington. These transactions are subject to the reporting requirements under Washington's Climate Commitment Act.²

II. The CAISO will support reporting requirements for WEIM transactions

Currently, WEIM entities receive settlement statements which include real-time negative imbalance energy received through the WEIM. Real-time negative imbalance energy reflects WEIM transactions used to serve electricity demand. Under its reporting rules, the Department of Ecology will treat all transactions in the WEIM used to serve load within Washington as imported energy.³ At least initially, the settlement statements provided to WEIM entities can support the data collecting requirements of Washington's reporting rules. The CAISO will offer additional specifics regarding how this data can support Washington's reporting rules in the CAISO's upcoming stakeholder workshop.⁴

III. The CAISO will hold a stakeholder workshop to examine market changes to support Washington's reporting rules and the Climate Commitment Act's cap-and-invest framework.

The CAISO intends to hold a workshop, likely in August 2022, to discuss what changes will be necessary to the WEIM design to implement and support the new Washington reporting rules under WAC 173-441, and potentially the proposed rules in this rulemaking related to the Climate Commitment Act's cap-and-invest framework.

² The CAISO is separately engaging in an Extended Day Ahead Market (EDAM) initiative in order to allow WEIM participants to participate in the day-ahead market. However, EDAM is a separate stakeholder initiative. The CAISO's comments in this forum are more narrow in scope and specific to the WEIM real-time market to support 2023 reporting.

³ The proposed rules define "imported electricity" as "[having] the same meaning as in chapter 173-441 WAC" (the reporting rules). Specifically, WAC 173-441-124(2)(g) defines "imported electricity" to include "electricity from an organized market, such as the energy imbalance market." The CAISO interprets this to mean that all transactions within the CAISO's WEIM, including those taking place between internal-to-Washington entities, will be treated as imported energy, both for the reporting requirements and for the cap-and-invest compliance obligations.

⁴ Stakeholders can stay informed of workshops by accessing the calendar on the CAISO's website www.aiso.com.

The CAISO welcomes participation, collaboration, and input on this workshop from the Washington Utilities and Transportation Commission, the Washington Department of Ecology, and the Washington Department of Commerce. The workshop will focus on necessary changes to the CAISO's market and tariff to support the January 1, 2023 reporting by Washington entities and the feasibility of implementing them on this short timeline. Topics may include: modeling the Washington border,⁵ updates to resources' reference levels to include greenhouse gas (GHG) costs,⁶ and modeling Washington's demand forecast.⁷

The proposed rules in this specific rulemaking do not contain sufficient details for the CAISO to immediately implement market changes to facilitate compliance by entities participating in a centralized market. The proposed rules define first jurisdictional deliverer, or the entity that holds the compliance obligation, as "the retail provider, marketer, or asset controlling supplier."⁸ Although these are defined terms themselves, their functions are too vague to identify the entity in a WEIM transaction to which they refer.

Washington's Climate Commitment Act states that by October 1, 2026, the Department of Ecology, in consultation with the Department of Commerce and the Utilities and Transportation Commission, "shall adopt by rule a methodology for addressing imported electricity associated with a centralized electricity market."⁹ A future rule should include additional specificity as to which entity is responsible for compliance. Once the compliance entity is identified for imported electricity associated with a centralized electricity markets, the CAISO will work to reflect these compliance requirements in its market design. In the interim, without an identified compliance entity for imported electricity associated with a centralized electricity market, the CAISO cannot model GHG costs for these transactions in the WEIM. For example, if the compliance obligation applies to the resource (*i.e.*, the WEIM participating resource or that resource's scheduling coordinator) the market would reflect the cost of GHG with bids in the optimization and allocate the GHG compliance obligation to the participating resource or its scheduling coordinator. However, if the compliance obligation applies to

⁵ Modeling the Washington border will allow the CAISO to accurately track Washington net transfers.

⁶ Reference levels are not the same as a resource including the cost of GHG compliance in their energy bid. Reference levels are cost-based bids calculated by the CAISO for some resource types to be utilized in several processes including mitigating resources that are determined to potentially wield local market power or bid cost recovery under certain scenarios. Including GHG compliance costs is important for developing accurate costs.

⁷ Modeling demand forecast for reporting and settlement purposes may be necessary to differentiate between load that pays for GHG and load that does not.

⁸ WAC 173-441-124(2)(c)(iii).

⁹ RCW 70A.65.080(1)(c).

utilities serving electric loads within Washington, the CAISO would explore a different approach in its market design.

IV. The CAISO recommends the Department of Ecology not impose a compliance obligation for WEIM transactions at this time.

Without a clearly identified compliance entity for imported electricity, the CAISO recommends there be no financial obligation under the cap-and-invest program for WEIM transactions at this time, though these transactions will still trigger a reporting requirement. Once a compliance entity is identified and the cap-and-invest rules for a centralized market are finalized, then Washington could impose a cap-and-invest compliance obligation for these types of electricity imports.

Notwithstanding the October 1, 2026 deadline included in the Climate Commitment Act, the CAISO urges the Department of Ecology to move expeditiously to develop a rule that identifies specific compliance entities for imported electricity associated with a centralized electricity market for two reasons. First, it could introduce a potential market inefficacy by not imposing a compliance obligation on WEIM transactions. If Washington resources have a compliance obligation and reflect the cost of carbon in their energy bids, but non-Washington resources do not, it would, all else being equal, make Washington resources appear more expensive compared to a non-Washington resource. This could result in some level of leakage. The CAISO could develop a market solution to ameliorate this outcome by imposing a hurdle rate for non-Washington resources not within a GHG regulation area based on the product of the current unspecified emissions rate and a Washington determined GHG cost. However, once the CAISO collects revenues from that hurdle rate, it would need to allocate them, and it is unclear which entity or entities could accept these revenues before Washington identifies specific compliance entities. Second, changes to the CAISO market require discussions with stakeholders, approval by the CAISO Board of Governors and the WEIM Governing Body, and ultimately review and acceptance by the Federal Energy Regulatory Commission. In addition, changes to market rules require sufficient lead-time to design, test, and implement.

The CAISO appreciates the opportunity to provide these comments and looks forward to working with Washington agencies to successfully implement the requirements of the Climate Commitment Act.

Respectfully submitted,

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