

August 2, 2013

**Via Electronic Submission**

California Air Resources Board  
1001 "I" Street  
Sacramento, CA 95814

**Re: Comments on proposed amendments to California's greenhouse gas cap-and-trade regulation and mandatory greenhouse gas reporting regulation**

The California Independent System Operator Corporation submits these comments on the discussion draft of proposed changes to the California Air Resource Board's cap and trade regulation issued on July 18, 2013, and the discussion draft issued on July 17, 2013 of proposed changes to California's mandatory greenhouse gas reporting regulation. The ISO strongly supports the efforts of ARB's program staff to refine the greenhouse gas cap and trade, and mandatory greenhouse gas reporting regulations to address outstanding issues affecting the electricity sector.

The ISO also underscores our commitment to ensure that the ISO's proposed energy imbalance market, which will allow balancing authorities throughout the west to participate in a real-time imbalance market operated by the ISO, respects ARB's cap and trade program. The energy imbalance market will dispatch economic bids to efficiently balance supply and load within the footprint of the energy imbalance market. As a result, entities participating in the energy imbalance market may import a portion of their real-time imbalance energy into California. These imports would be subject to compliance obligations under ARB's regulations.

The ISO offers the following specific comments to the discussion drafts of proposed amendments to ARB's regulations:

**I. Changes related to the proposed energy imbalance market**

The ISO believes ARB should revise its cap and trade regulation to clarify the mechanism for covered entities to report data to ARB with respect to real-time imbalance energy imported into California under the energy imbalance market. Under ARB's cap and trade regulation, electricity importers must comply with the cap and trade regulation and surrender allowances associated with the reported emissions. For imports scheduled with an e-Tag to a final point of delivery inside the state of California, the electricity importer is identified on the e-Tag as the purchasing-selling entity on the last segment of the tag's physical path with the point of receipt located outside the state

of California and the point of delivery located inside the state of California.<sup>1</sup> However, under the energy imbalance market, imports will not have a resource-specific e-Tag that identifies the electricity importer. Instead, the ISO plans to provide information to an energy imbalance market participating resource regarding how much of the resource's output was transferred into the ISO. This information will allow the resource owners and operators to report its imports into California.

Resource owners and operators participating in the energy imbalance market will need certainty regarding how much of their output is subject to compliance obligations under ARB's cap and trade regulation. For this reason, the ISO recommends ARB add the following language to the definition of imported electricity in Section 95802(a) to include the following sentence:

“Imported electricity shall include Energy Imbalance Market dispatches designated by the CAISO's optimization model and reported by the CAISO to EIM Participating Resource Scheduling Coordinators as electricity imported to serve retail customers that are located within the State of California.”

In Section 95802(a) of the cap and trade regulation, ARB proposes to include a definition for the term *EIM Participating Resource Scheduling Coordinator*. The proposed definition reads:

“EIM Participating Resource Scheduling Coordinator” means an EIM Entity Scheduling Coordinator, EIM Entity, or a third-party designated by the EIM Entity, that is certified by the ISO and that enters into a pro forma EIM Participating Resource Scheduling Coordinator Agreement, under which it is responsible for meeting the requirements specified in CAISO Tariff Section 291 on behalf of the EIM Entity.

The addition of this defined term in conjunction with ARB's proposed change to the definition of electricity importers<sup>2</sup> would expand the cap and trade regulation to cover entities participating in the proposed energy imbalance market. The ISO believes the definition of *EIM Participating Resource Scheduling Coordinator* should be more specific with respect to which entities participating in the energy imbalance market are subject to the cap and trade regulation. A more precise definition will provide greater

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<sup>1</sup> Title 17, California Code of Regulations § 95802(a)(85).

<sup>2</sup> In the definition of electricity importers in Section 95802 of ARB's cap and trade regulation, ARB is proposing to add the following language: “Electricity importers include EIM Participating Resource Scheduling Coordinators serving the EIM market whose transactions result in electricity imports into California.”

clarity and certainty to participants in the energy imbalance market as to whether the cap and trade regulation applies to them. The ISO, therefore, proposes the following changes to the definition of *EIM Participating Resource Scheduling Coordinator*. Underlined language reflects additions; strike-through language reflects deletions.

“EIM Participating Resource Scheduling Coordinator” means the participating resource owner or operator ~~an EIM Entity Scheduling Coordinator, EIM Entity, or a third-party~~ designated by the EIM Entity ~~the participating resource,~~ or a third-party designated by the resource owner or operator, that is certified by the CAISO and enters into the pro forma EIM Participating Resource Scheduling Coordinator Agreement, under which it is responsible for meeting the requirements specified in ~~Tariff Section 294~~ the CAISO tariff on behalf of the resource owner or operator ~~EIM Entity~~.

This revised language more clearly reflects that the compliance obligation under the cap and trade regulation applies to a resource owner or operator participating in the energy imbalance market or a third party designated by the resource owner or operator. In addition to these changes, ARB should consider defining *Energy Imbalance Market* and identify *EIM* as an acronym in Section 95802(b). The ISO proposes the following definition for *Energy Imbalance Market*:

“Energy Imbalance Market means the operation of the CAISO’s real-time market to manage transmission congestion and optimize procurement of energy to balance supply and demand for the combined CAISO and EIM footprint.”

The ISO recommends ARB assess whether it needs to make similar definitional changes to the mandatory reporting regulation to accommodate the development of an energy imbalance market. These changes may be necessary to clarify the applicability of the regulation to resource owners and operators (or third party scheduling coordinators) participating in the energy imbalance market. ARB may also need to make additional changes to clarify reporting requirements under the regulation. For instance, ARB should consider modifications to the definition of exported electricity in the mandatory reporting regulation to exclude energy imbalance market dispatches of resources within the ISO’s balancing authority to serve load in another balancing authority. Similar to imports to the ISO balancing authority area under the energy imbalance market, these transactions will not have an associated e-Tag with the first point of receipt located inside of California and the final point of delivery located outside of California. Resource owners and operators within the ISO’s balancing authority will not know what portion, if any, of their energy imbalance market output was transferred to serve load outside of California.

## II. Changes to the definition of imported electricity to exclude emergency assistance

In Section 95802 of the cap and trade regulation, ARB proposes to amend the definition of imported electricity to state “Imported Electricity does not include electricity imported into California by an Independent System Operator to meet NERC Reliability Standard EOP-002.” Last year, the ISO requested that ARB clarify in its cap and trade regulation that the ISO is not a covered entity in instances in which it is providing or receiving emergency assistance. The ISO proposes the following changes to the proposed addition to the definition of *Imported Electricity*. Underlined language reflects additions; strike-through language reflects deletions.

“Imported Electricity does not include electricity imported into California by an Independent System Operator to obtain or provide emergency assistance under applicable emergency preparedness and operations reliability standards of the North American Electric Reliability Corporation or Western Electricity Coordinating Council. ~~to meet NERC Reliability Standard EOP-002~~”

These changes also reflect a more general reference to applicable reliability standards because the North American Electric Reliability Corporation and Western Electricity Coordinating Council update and re-number their reliability standards from time to time. The ISO appreciates ARB’s willingness to make this clarification. The ISO remains willing to provide ARB with aggregated information concerning interchange transactions involving emergency assistance on an annual basis.

## III. Changes related to the prohibition against resource shuffling

In Section 95802 of the cap and trade regulation, ARB proposes to modify the definition of resource shuffling to specify that it comprises any plan, scheme, or artifice to substitute electricity deliveries from sources with relatively lower emissions for electricity deliveries from sources with relatively higher emissions resources to reduce its emissions compliance obligation. The definition also specifies activities that do not constitute resource shuffling. In November 2012, the ARB identified these activities in a regulatory guidance document.<sup>3</sup> The ISO supports ARB’s proposal to incorporate this guidance into the regulation.

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<sup>3</sup> See Appendix A to Cap-and-Trade Regulation Instructional Guidance dated November 2012: What is Resource Shuffling? [http://www.arb.ca.gov/cc/capandtrade/guidance/appendix\\_a.pdf](http://www.arb.ca.gov/cc/capandtrade/guidance/appendix_a.pdf)

In Section 95852(b)(2) of the cap and trade regulation, ARB proposes to eliminate the requirement that first deliverers of electricity annually attest that they have not engaged in resource shuffling. The ISO supports this change.

Please contact the undersigned if you have any questions regarding these comments.

Respectfully submitted,

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