

**Comments of the Western Power Trading Forum
to the California Air Resources Board
on Cap and Trade Regulation Amendments
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The Western Power Trading Forum¹ (WPTF) welcomes the opportunity to provide input to the California Air Resources Board (CARB) on issues raised at the April 26th workshop on potential amendments to the Cap and Trade Regulation. WPTF's comments below address CARB's consideration of options for cost containment and greenhouse gas emission (GHG) accounting in the Energy Imbalance Market (EIM). We provide no comments on other issues, such as allocations and offsets, at this time, but will await a formal proposal from staff.

Cost Containment

WPTF is supportive of staff efforts to come up with a reasonable proposal for a price ceiling for the post 2020 period. Given the uncertainty around future emission levels and allowance prices, and the legislative mandate to establish a true price ceiling, we do not believe that it would be beneficial to limit the supply of allowances by shrinking program caps or limiting the use of banked allowances. We share staff's assessment that current mechanisms in the cap and trade program, such as holding limits and provisions to move unsold allowances to the price containment reserve, will adequately protect against the oversupply of allowances in the post-2020 program.

We strongly oppose any limitation on use of banked allowances as this would unfairly penalize entities who have acted early to reduce emissions or that have purchased surplus allowances to hedge against future price spikes.

EIM GHG Accounting

WPTF appreciates CARB comments to the California Independent System Operator (CAISO) that supported the CAISO's proposal to limit the GHG bid quantity of external resources (i.e. the quantity that could be considered deemed delivered to the CAISO) to dispatchable quantity above a resource's base schedule, but that opposed the proposal to establish a minimum GHG bid price for all external resources. As staff noted in the presentation, these changes to the algorithm would reduce emissions associated with so-called 'secondary dispatch' but would not completely eliminate them. For this reason, staff are reconsidering the 'EIM Purchaser' option.

WPTF believes that it is premature to move away from the bridge approach currently in place in the regulation. CAISO continues to consider further options to improve the EIM's treatment of GHG emissions, and stakeholders are engaged and interested in finding a market solution..

As WPTF understand this EIM Purchaser option, CAISO and CARB would continue to quantify emissions associated with secondary dispatch, but rather than retire allowances to account for these emissions, CARB would administratively assign a carbon obligation to California utilities that participate in the EIM based on their proportionate share of EIM purchases. WPTF opposes this option for several reason. First, it would provide no substantive benefit over the bridge

¹ WPTF is a diverse organization comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West. WPTF has over 80 members participating in power markets within California and elsewhere across the United States.

solution in terms of GHG accounting accuracy or the carbon price signal, as both approaches would result in the same quantity of allowances being removed from the market. Nor would the EIM Purchaser option address the actual deficiencies in the EIM design that lead to secondary dispatch. Second, the approach would be unfair to California utilities that participate in the EIM because they would have no ability control the carbon obligation that would result from EIM participation, short of opting out of the EIM altogether. California utilities that participate in the EIM have no control over the resources that are dispatched and assigned to serve California load – they thus have no ability to influence the quantity of emissions that would be assigned to them under the EIM purchaser approach and no way to mitigate their carbon risk. This risk could deter participation of additional California utilities in the EIM.

WPTF therefore urges CARB to maintain the current bridge approach and to continue to work with the CAISO and stakeholders on ways to improve the EIM algorithm. This should include consideration of how approaches to limit the GHG bid quantity would work in a day-ahead or regional market design, or if other states adopt carbon pricing.