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California Air Resources Board
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SMUD Comments on Mandatory Reporting Regulation 15-Day Language

Thank you for the opportunity to submit comments concerning proposed amendments to the Mandatory Reporting Regulations (MRR), in response to proposed amendments posted on November 14th (15-day language).

Abandon the EIM Participant Approach: SMUD strongly opposes the changes in the 15-day language and the earlier 45-day language that abandon the use of CARB's current "bridge solution" for dealing with potential "outstanding" (secondary dispatch) emissions in the Energy Imbalance Market (EIM). The bridge solution preserves environmental integrity in relation to emissions leakage by retiring allowances to cover the estimated outstanding emissions in the (EIM). The EIM participant approach as proposed in the 45-day language and modified in the 15-day language does nothing to enhance environmental integrity. Instead, the changed approach risks disruption of the EIM market just as it is expanding and bringing greater environmental benefits to California and the western region.

It is striking that the California Independent System Operator (CAISO), a collaborative state energy governing body that hosts the EIM market, recommended that the ARB retain the bridge solution through 2019 in 45-day comments – a recommendation ignored by CARB in the 15-day language. The utility EIM Participant approach proposed in the 15-day language imposes additional rules and costs on utility EIM participants simply for being part of the market, not in any manner related to a choice to procure or not procure of GHG emitting resources. As such, the 15-day language complicates EIM market participation, and in addition raises the potential that utility ratepayers may be overcharged for the obligation.

The "EIM Participant" language, as currently drafted, is essentially a GHG emissions "penalty" structure on California utilities that are either direct participants in the EIM, or LSEs within the CAISO service territory who have EIM energy cleared on their behalf. The GHG penalty is wholly disconnected from the decisions made by these EIM participants, other than the decision to participate in the first place. As such, the GHG penalty does not encourage any particular GHG reduction in the EIM market transactions. It is no wonder that the CAISO and market participants are

recommending that the ARB abandon this problematic solution as they are worried about the unintended impacts on the EIM market place.

SMUD recommends that CARB accept the CAISO advice, which is supported by many market-involved stakeholders and retain the bridge solution at least through 2019. There is no loss of environmental integrity by doing so, because any estimated secondary dispatch emissions are still covered.

Take Time To Observe and Analyze EIM Market Changes: SMUD notes that the new CAISO market rule intended to lessen secondary dispatch has just gone into effect, hence there has not been adequate time for CARB Staff to analyze the effects of the rules approved by FERC to evaluate whether they have shifted the patterns of resource dispatch in the EIM, and whether they demonstrate a lower potential amount of energy "leakage" and therefore a lower *potential* for emissions "leakage." CARB Staff's decision to move forward at this time without information about the market changes is not justified by any urgency to retire the "bridge solution" currently in place. The bridge solution fully covers the estimated outstanding emissions – there is no "leakage" that remains to threaten environmental integrity.

SMUD notes that when FERC approved the new CAISO tariff, it mandated studies (165 FERC ¶ 61,050), which when completed will provide solid data on the effects of this EIM market change.

> "In order to provide greater transparency to the market, we require CAISO to submit an informational report to the Commission on or before January 1, 2020.The CAISO notes that developing these reports will require collaboration with stakeholders to gain consensus on the concept of secondary dispatch and to determine the format and content of the reports. The report must describe the extent to which situations similar to the scenario described by DMM in its comments to CAISO's stakeholder process materialize during the 12 months after the implementation of CAISO's tariff revisions." (165 FERC ¶ 61,050 at 18).

FERC goes on to say that it will not require a report on the "magnitude of secondary dispatch that continues to occur and the historic and ongoing volume of emissions associated with such secondary dispatch as PG&E and Powerex request" (*Id*.at 19) because these reports would be "focused on compliance with current and potential future CARB regulations regarding GHG emissions, and are not necessary to assess the justness and reasonableness of CAISO's proposal." (*Id* at 19). However, it seems that CARB could have CAISO produce these exact reports by January 2020, and thus provide the agency with more representative data on how secondary dispatch and potential emissions leakage has been affected by this tariff change. The FERC mandated study is absolutely material to the issues in CARB's rulemaking and MRRs.

Retaining the bridge solution for an additional period provides time for experience with the newly FERC-approved CAISO tariff to affect secondary dispatch. Retaining the bridge solution also provides time for better calculation of any remaining secondary dispatch emissions, improving accuracy over the rough approach of assuming that all EIM participation should be associated with the default emission factor in the calculation to determine outstanding emissions. In addition, retaining the bridge solution provides time for the study ordered by FERC on secondary dispatch emissions when approving the CAISO tariff aimed at reducing the problem. Lastly, retaining the bridge solution provides time for CARB to conduct additional analysis of the secondary dispatch problem as the EIM expands and the CAISO tariff change is in place.

Prior to Abandoning the Bridge Solution, CARB Should Revise the Calculation of Outstanding Emissions: As quarterly data published by the CAISO shows,[1] EIM transfers into California (to date, only into the CAISO and PacifiCorp West balancing areas) are generally balanced quite evenly with EIM transfers out of California over the course of the year (certain seasons result in more imports vs. exports depending on California's renewable output relative to load). The public EIM reports do not break out exports by generation type, but other CAISO reports detail the reduction in renewable curtailment in the state because California is exporting excess renewables in the middle of the day, thus displacing emitting resources elsewhere in the West with non-emitting resources. Furthermore, a high proportion of EIM entities are served primarily by hydropower,[2] meaning that the emissions profile of these entities is even *lower* than California.

The net flows across state-borders as well as the GHG intensity of the current EIM participants should be reviewed again by agencies and stakeholders before CARB proceeds to impose the GHG cost on specific entities rather than covering the obligation through the overall Cap and Trade market. The current MRR use of the default emission factor applied to all EIM imports should be reconsidered as the CARB moves to a permanent solution to replace the bridge solution. A significant portion of the present EIM is dominated by GHG-free hydropower, which often has a lot of room to adjust output. It is merely an assumption that marginal imbalances will be served by gas power plants with capacity factors less than 60% (the genesis of the current default emission factor). In addition, the data underlying the default factor is over 10 years old, and the entire number should be reconsidered prior to moving away from the bridge solution.

The calculation of "outstanding emissions" today rests on out of date assumptions and imperfect information about the EIM market as it grows. The intent of the calculation is reasonable – to identify potential "emissions leakage" associated with the EIM market, so that obligation can be "covered" by retiring allowances in one way or another. However, it is not reasonable to impose an expensive carbon obligation on specific entities that have no responsibility for the emissions identified,

[1] https://www.westerneim.com/Documents/ISO-EIMBenefitsReportQ3-2018.pdf
[2] Idaho Power, Powerex, Portland General, Puget Sound Energy.

rather than on the overall Cap and Trade market. A solution based on better data and that allocates the carbon obligation to those EIM participants that cause the secondary dispatch.

Bottom Line: Nearly all the proposed EIM-related changes in the 45-day and 15-day language for the Cap and Trade and MRR regulations should be rejected by the Board. In the MRR, none of the proposed changes in Section 95111(h) should be adopted, and all references to "EIM Purchaser", including the definition, should not be added.

/s/

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cc: Corporate Files (LEG 2018-0492)