AMERICAN WIND ENERGY ASSOCIATION
CALIFORNIA CAUCUS

March 16, 2018

Rajinder Sahota
Chief, Climate Change Program Planning & Management Branch
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Submitted Electronically

RE: American Wind Energy Association (AWEA) California Caucus Comments on 2018 Cap-and-Trade Rulemaking Scope

Dear Ms. Sahota:

The AWEA California Caucus ("ACC") provides the following comments in response to the California Air Resource Board's ("ARB") March 2, 2018 workshop to discuss possible revisions to the cap-and-trade regulation. ACC's comments focus on potential changes to the Energy Imbalance Market ("EIM") language in the Cap-and-Trade Rules and the need for more stakeholder review and input before any changes are made to the Cap-and-Trade Program.

ACC has actively participated in the California Independent System Operator's ("CAISO") stakeholder initiative to develop a long-term "secondary dispatch" solution to replace the current solution that the ARB scoped into the 2016-2017 Cap-and-Trade Rulemaking. Through the CAISO EIM - GHG stakeholder initiative, the CAISO has reviewed a number of potential long-term solutions to identify and address emissions associated with "secondary dispatch." The CAISO has defined "secondary dispatch" to mean:

> [A] concern that the EIM GHG design is not fully capturing the impact to the atmosphere that occurs in connection with EIM transfers to serve CAISO load. Briefly, this concern relates to CAISO dispatches of EIM participating resources to serve CAISO load based on minimizing total costs of energy and GHG bid adders. The CAISO's least-cost dispatch can have the effect of attributing transfers to serve CAISO load to lower-emitting EIM participating resources because these resources face fewer or no costs to comply with ARB's regulations. In some instances, higher-emitting resources will need "to backfill" this dispatch to serve EIM load outside of the CAISO. The CAISO refers to this phenomenon as secondary dispatch.[1]

[1] See CAISO's February 16, 2018 Second Revised Draft Final Proposal, available at: http://www.caiso.com/Documents/SecondRevisedDraftFinalProposal-EnergyImbalanceMarketGreenhouseGasEnhancements.pdf.

ACC was supportive of the previous two pass solution, which is no longer under consideration by the CAISO. The CAISO recently released a new proposal that was discussed at the March 2, 2018 workshop. The new proposal would include new bidding rules for determining both GHG quantity and GHG price. ACC recently filed comments with the CAISO expressing concern with the new proposal, particularly as it relates to setting a GHG bid price. ACC, and many other stakeholders, are concerned that the current proposal would place the GHG emissions obligation of "secondary dispatch" in the EIM on clean generation resources, such as wind, solar and hydro, while not placing that same burden on emitting resources. If implemented, the current proposal would have the effect of discriminating against similarly situated out-of-state resources in favor of in-state resources. These concerns are explained in more detail in ACC's March 1, 2018 comments on the CAISO's February 18th Second Revised Draft Final Proposal.[2]

In addition to our concerns regarding the equitable treatment of in-state and out-of-state resources, no secondary dispatch solution has adequately demonstrated that it would be a reliable long-term solution that can be integrated with the market optimization process. In addition to the need to develop a solution that is equitable and supported by the full EIM Governing Board, the secondary dispatch solution will need to be integrated with other market changes underway. Specifically, the current secondary dispatch proposal does not lend itself to an EIM that operates in the Day-Ahead Market. ACC believes that a long-term solution for the secondary dispatch issue should be readily adaptable to the Day-Ahead Market given potential expansion of the EIM into the Day-Ahead Market. Otherwise, the ARB will be revising the Cap-and-Trade Regulation again in the next two years to address expansion of the EIM to the Day-Ahead Market. Uncertainty regarding market related regulations generally equate to higher risk and higher energy costs.

ACC is concerned that an equitable solution that has broad stakeholder support and is also durable, cannot be developed in the timeframe the ARB discussed for the upcoming Cap-and-Trade Rulemaking. While the CAISO's current schedule is aggressive and would optimistically result in final CAISO approval in May 2018, new tariff language would still need to be approved by the full EIM Governing Board. After that, the EIM tariff language would need to be developed and filed with the Federal Energy Regulatory Commission ("FERC"). Optimistically, this could take through the end of the year. Therefore, even on this timeframe, the CAISO's proposal would not be approved until late 2018 and could not be implemented until a later date (and more likely in mid-2019). Once the CAISO and the EIM Governing Board adopt a proposal, the ARB should provide stakeholders with ample time to review and understand an ARB staff proposal for how the EIM will be integrated into both the Mandatory

[2] See ACC's March 1, 2018 Comments in EIM Stakeholder Initiative, available at: http://www.caiso.com/Documents/ACCComments-EIMGHGEnhancements-SecondRevisedDraftFinalProposal.pdf.

Reporting Regulation ("MRR") and the Cap-and-Trade Rules. ACC believes there are critical EIM/Cap-and-Trade integration issues that must be resolved before the Cap-and-Trade Rulemaking is noticed. Specifically, the ARB should work with stakeholders to address:

(1) How will the secondary dispatch emissions rate be determined?

(2) How will the secondary dispatch emissions rate correlate to the current (or proposed updates) to the default emissions rate?

(3) Would different default and secondary dispatch emission rates lead to market distortions as between EIM and bilateral markets?

(4) Will EIM participants have notice of the secondary dispatch emissions rate before an emissions year?

(5) When will EIM participants know if they have an emissions obligation for secondary dispatch emissions and how does this correlate with the timing for registering in the Cap-and-Trade Program, participating in the quarterly Cap-and-Trade Auctions, and then remaining in compliance with the Cap-and-Trade Regulation?

(6) How will a GHG bid price awarded to an EIM participant be trued-up against actual quarterly auction settlement prices in auctions occurring after dispatch to ensure that EIM participants actually recoup secondary dispatch costs assigned to them?

(7) Would an EIM proposal that assigns a secondary dispatch obligation to a non-emitting resource discourage EIM participation due to the rule that once an entity becomes a regulated entity under the program, it must remain in the program until it has emissions without a compliance obligation in each of three years for a full triennial compliance period?

(8) Does an adopted EIM secondary dispatch proposal potentially cause any legal issues if it discriminates against out-of-state resources in favor of in-state resources?

In considering these questions, the ARB and the CAISO should evaluate procedures that ensure equitable treatment as between similarly situated in-state and out-of-state resources. The ARB and the CAISO should also provide EIM participants with regulatory certainty both in terms of cost recovery and in terms of having to register and participate in the Cap-and-Trade Program and being committed to remaining registered in the Cap-and-Trade Program for at least one full triennial compliance period.

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Due to the additional time needed to adopt a durable secondary dispatch solution that has broad stakeholder support, the ARB should rely on the current "interim solution" through the 2020 emissions year and provide advance notice of need to register

ACC appreciates that the ARB does not wish to simply collect secondary dispatch information through the MRR and then remove a corresponding amount of allowances from the state Cap-and-Trade Budget, and would instead prefer to see a market-based solution. ACC believes that on balance, it is more important to take the time needed to resolve these complex issues. Taking more time to develop an equitable and durable long-term solution will ensure that the EIM can continue to fulfill its goals of robust market participation that reduces costs and GHG emissions across the Western Interconnection. ACC looks forward to continuing to work with the CAISO and the ARB towards the successful implementation of a durable, equitable solution to the secondary dispatch issue.

Respectfully submitted,

/s/

Brian S. Biering
Ellison Schneider Harris & Donlan LLP

Attorneys for the AWEA California Caucus