



California Municipal Utilities Association

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November 4, 2016

Ms. Rajinder Sahota
Chief, Climate Change Program Planning & Management Branch
California Air Resources Board
1001 I Street
Sacramento, CA 95814

**Re: Comments of the California Municipal Utilities Association on the October 21, 2016
Mandatory GHG Reporting and Cap-and-Trade Program Workshop**

Dear Ms. Sahota:

The California Municipal Utilities Association (“CMUA”) respectfully submits these comments to the California Air Resources Board (“ARB”) on the Mandatory GHG Reporting and Cap-and-Trade Program Workshop, held on October 21, 2016. CMUA’s comments provide input into the parallel ARB and California Independent System Operator (“CAISO”) processes on how to apply California carbon policy to expanding regional energy markets. CMUA’s comments are relevant to the existing Energy Imbalance Market (“EIM”) and the proposed integration of PacifiCorp into the full CAISO day-ahead market.

In previously submitted comments to the CAISO,¹ CMUA examined options to address this issue through the lens of certain policy guideposts. In those comments, CMUA urged the CAISO to develop a carbon accounting process that adheres to these policy guideposts. The same guidance should be used to inform ARB’s process. Certain of those guideposts include the following:

- **The Market Should Incentivize Behavior:** The market design should incent appropriate market participant behavior, not simply attribute costs. Simply creating an obligation without a means to modify behavior to reduce emissions does little to achieve policy objectives, namely reduce carbon emissions. One such example of potential market distortion is allowing the CAISO market to cover the cost of compliance obligations via an uplift collected from CAISO load to address leakage concerns due to the so-called “secondary dispatch.” CMUA’s concern is that uplift payments can adversely affect market outcomes, undermine the effectiveness of price signals, and potentially reduce market efficiency. CMUA urges the CAISO to prioritize possible market design solutions that incorporate carbon costs into the optimization, which would affect dispatch decisions through market participant bidding.

¹ CMUA Comments on “Regional Integration California Greenhouse Gas Compliance Issue Paper,” Sept. 23, 2016, available at <http://www.caiso.com/Documents/CMUAComments-RegionalIntegrationCaliforniaGreenhouseGasCompliance-IssuePaper.pdf>.

- **Unhedged Cost Exposure:** Any design should be cognizant of new cost exposure for smaller entities, some of whom may not be covered entities under ARB's rules. The design should also not create exposure that cannot be hedged or otherwise mitigated due to the fact that the source of the cost exposure is largely outside of the entities' control.
- **Economic Impacts on Generation:** CMUA is concerned that disparate rules for resources in a single optimization will discriminate against California-based resources and contribute to reduced market revenues for those resources.

At the CAISO's Technical Workshop held October 13, 2016, CAISO staff set forth three options to address GHG emissions within the context of a regional market. Based on ARB staff's presentation at the October 21, 2016 Workshop, it is CMUA's understanding that ARB has removed consideration of Option 1 due to the fact that the ARB regulation does not recognize intertemporal benefits. However, CAISO could quantify any emissions greater than the EIM resource attribution in a balancing account during a calendar year, which could be fully offset by retiring an equivalent number of instruments in that year. CMUA is also struggling to juxtapose the removal of this option when initial studies have indicated that the EIM dispatch overall may be resulting in significant GHG benefits.² ARB materials clearly indicate that the driving rationale for raising the issue of the dispatch within the EIM is to capture the overall impact of GHG emissions on the atmosphere. A reduction in GHG emissions directly resulting from EIM dispatch would appear to be highly relevant when determining whether in fact EIM or other regional dispatch are consistent with this objective. CMUA urges further consideration of Option 1, especially since EIM data is still under development and the EIM footprint has changed significantly to include additional low-emitting resources.

Only Option 2 (modifying the optimization to maintain resource-specific cost and attribution of emissions) would appear to recognize the key CMUA principle that the carbon costs should be considered in the optimization, rather than in an administrative, extra-market mechanism. While the Workshop presentation reflected CAISO concerns regarding the technical feasibility of implementing Option 2, CAISO staff did clarify that they were still reviewing this option and have not yet concluded that it is not implementable. CMUA would like to understand further the concerns of the CAISO staff regarding the technical feasibility of implementing Option 2, and urges ARB and the CAISO to continue assessing this option. Given that there appears to be some support at the conceptual level for this option, it is incumbent upon ARB, the CAISO, and the stakeholders to fully explore what possibilities may overcome these technical barriers.

The CAISO proposes to pursue what it has identified as Option 3. ARB staff has indicated that it is considering a modified version of Option 3. The CAISO Option 3 would involve developing and applying a uniform "hurdle" rate for energy transfers into California from external resources other than external resources contractually committed to California load serving entities

² Energy Imbalance Market GHG Counter-Factual Comparison, August 25, 2016, *available at* http://www.caiso.com/Documents/EIMGreenhouseGasCounter-FactualComparison-PreliminaryResults_Jan-Jun_2016_.pdf.

(“LSEs”). CMUA is highly concerned about this approach. First, consistent with CMUA’s principles stated above, applying a uniform hurdle rate to all energy transfers into California may not accurately reflect the costs for emissions in the prices for GHG-emitting resources. As CMUA understands it, potentially lumping high and low-emitting resources creates perverse incentives by disadvantaging low-emitting resources and advantaging higher emitting resources. The prices for low-emitting resources will be elevated as compared with resource-specific attribution of emissions costs, and the prices for high-emitting resources will be suppressed, leading to dispatch outcomes directly contrary to the objectives of California’s GHG program. In addition, LSEs within California will have no ability to predict the levels of additional charges for which they may be responsible nor to mitigate such charges by changing behavior. Moreover, it would appear extraordinarily difficult, if not impossible, to calculate a hurdle rate that neither over-collects nor under-collects the emissions costs for energy transfers into California. As a result, the entities responsible for providing compliance instruments for such transfers will have a clear risk of incurring unreimbursed costs.

Option 1 should continue to be considered as ARB works with the CAISO and stakeholders on resolution of this issue, and it seems clear that the underlying rationale for rejecting Option 1 must be further examined. If there are regulatory and statutory limitations that thwart the pursuit of a common sense solution, then given that we are in the throes of a regulatory process, now would be the time to identify and address these impediments.

CMUA appreciates the opportunity to provide these comments on the October 21, 2016 Workshop, and thanks the ARB for its review and consideration.

Respectfully submitted,



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