

April 28, 2017

VIA ELECTRONIC MAIL

Clerk of the Board
California Air Resources Board
1001 I Street
Sacramento, California 95814
<http://www.arb.ca.gov/lispub/comm/bclist.php>

**Re: Comments on Second 15 Day Notice of Modifications to
Amendments to California Cap-and-Trade and Mandatory
Greenhouse Gas Reporting Regulations**

The California Independent System Operator Corporation (ISO) submits these comments on the Second Notice of Public Availability of Modified Text and Availability of Additional Documents and/or Information (15 Day Notices) issued by the California Air Resource Board (ARB) on April 13, 2017 in connection with proposed amendments to California's cap-and-trade and mandatory greenhouse gas reporting regulations.¹ The ISO supports the revisions ARB has made to its proposed amendments as they relate to the ISO and the Western Energy Imbalance Market (EIM).² The ISO, however, requests that ARB ask its staff to prepare a supplemental amendment to these regulations. The supplemental amendment would retire ARB's proposed "bridge solution" and rely on the ISO's enhanced optimization to identify which EIM resources were dispatched to serve ISO load and corresponding emissions for those electricity imports. ARB should begin the process to amend its regulation when the ISO has authority from its Board of Governors to implement enhancements to ISO's market optimization to more accurately account for emissions associated with the dispatch of EIM resources to serve ISO load. ARB should make the supplemental amendment effective on the date the ISO implements these enhancements. The ISO looks forward to continuing to work collaboratively with state agencies and all stakeholders on this matter.

I. The ISO supports the revisions in ARB's 15 Day Notices that relate to the Western EIM

In Section G of the 15 Day Notice related to the cap and trade regulation, ARB states that it is modifying Section 95852(b)(2)(A)(10) to reinstate language that clarifies

¹ ARB's notices (referred to herein as 15 Day Notices) provide that the deadline for public comment in response to this notice is April 28, 2017.

² More information about the Western EIM is available on the ISO's website:
<http://www.caiso.com/participate/Pages/EnergyImbalanceMarket/Default.aspx>

that electricity imports to the ISO through the Western EIM do not constitute resource shuffling. ARB explains that pending enhancements to the ISO's optimization, ARB is proposing to implement a "bridge solution" to account for greenhouse gas emissions associated with secondary dispatches that may occur in connection with EIM transfers.³ Under the bridge solution, ARB proposes to calculate emissions for EIM transfers that constitute electricity imports into California at the emissions rate for unspecified sources, less emissions reported by EIM participating resource scheduling coordinators. Beginning January 1, 2018, ARB would retire current vintage allowances designated by ARB for auction that remain unsold for more than 24 months in the amount of the calculated outstanding emissions. As stated in the 15 Day Notice, ARB is satisfied that the approach does not constitute resource shuffling in the Western EIM. The ISO appreciates ARB's willingness to make this change and reinstate language clarifying that EIM transactions do not constitute resource shuffling.⁴

With respect to the bridge solution, the ISO also appreciates ARB's acknowledgment that it will be an interim solution until the ISO implements enhancements to its optimization. In consultation with ARB and other stakeholders, the ISO is examining proposed enhancements to its market optimization in order to more accurately capture emissions associated with the dispatch of external resources to serve ISO load.⁵ The ISO also proposed modifying how the market optimization will attribute EIM transfers serving ISO load to EIM participating resources in order to address concerns that the current dispatch may create emissions from secondary dispatches when there is an EIM transfer to serve ISO load. At a high level, the ISO proposes to run its least cost dispatch optimization in two steps. First, the ISO proposes to identify the least cost dispatch of resources to serve EIM load without allowing EIM transfers to serve ISO load. This step will provide an economic base of

³ The term "secondary dispatch" refers to the effect of lower GHG emitting resources supporting EIM transfers to serve ISO load while higher GHG cost resources backfill to serve load in EIM Entities' balancing authority areas. When the ISO dispatches EIM resources to support a transfer to serve California load, the ISO seeks to minimize total costs associated with these transfers. Least cost dispatch can have the effect of attributing transfers to serve California load to lower-emitting EIM resources. In some instances, higher-emitting resources will need "to backfill" this dispatch to serve load outside of California.

⁴ Irrespective of the bridge solution, EIM transactions do not constitute resource shuffling under ARB's regulations. Resource shuffling, as defined by ARB, is a "plan, scheme, or artifice undertaken by a First Deliverer of Electricity to substitute electricity deliveries from sources with relatively lower emissions for electricity deliveries from sources with relatively higher emissions to reduce its emissions compliance obligation." ISO market dispatches do not meet this definition because they are not a plan, scheme or artifice undertaken by a first deliverer of electricity. Moreover, the safe harbor from the prohibition against resource shuffling currently extends to transactions in the ISO's real-time market transactions. The EIM is the ISO's real-time market extended to other balancing authority areas in the West.

⁵ More information on the ISO's stakeholder initiative is available at the following website:
<http://www.caiso.com/informed/Pages/StakeholderProcesses/RegionalIntegrationEIMGreenhouseGasCompliance.aspx>

resource schedules outside California from which the ISO can then identify incremental EIM dispatches to serve California load. Second, the ISO will run its least cost dispatch optimization allowing transfers to serve California load. The ISO will attribute EIM transfers serving ISO load to output from resources above their economic base schedules identified in the first step.

The ISO plans to resume its stakeholder initiative to design these enhancements and will seek authority from its Board of Governors. Prior to seeking authority from its Board of Governors to implement these enhancements, the ISO plans to demonstrate, through a market simulation, how these enhancements account for greenhouse gas emissions from EIM participating resources serving ISO load. ARB, as well as all stakeholders, will have the ability to review the inputs and results of this market simulation. After the ISO obtains authority from the Board of Governors, the ISO will submit any necessary tariff revisions to the Federal Energy Regulatory Commission. In that filing, the ISO will identify an implementation date for its market design enhancements. The ISO plans to consult with ARB staff and stakeholders with respect to the implementation date for these enhancements.

While the ISO supports ARB's bridge solution, ARB should only apply it on an interim basis to provide time for the ISO and its stakeholders to develop and implement refinements to the EIM optimization. For this reason, the ISO requests ARB to direct its staff to prepare a supplemental amendment to these regulations. The supplemental amendment would retire ARB's proposed "bridge solution" and rely on the ISO's enhanced optimization to identify which EIM resources were dispatched to serve ISO load. ARB should begin the process to amend its regulation when the ISO has authority from its Board of Governors to implement enhancements to ISO's market optimization to more accurately account for emissions associated with the dispatch of EIM resources to serve ISO load. ARB should make this amendment effective on the date the ISO implements these enhancements.

II. The ISO supports elimination of text that would make the ISO a reporting entity under ARB's mandatory reporting regulation

In Section F of ARB's Second 15 Day Notice for its mandatory reporting regulation, ARB explains that it has removed the ISO as a reporting entity under the mandatory reporting regulation for purposes of the EIM. The ISO appreciates and supports this modification. As explained in its earlier comments, the ISO is a market operator and transmission planning entity. In conducting these activities, the ISO is not a source of emissions under ARB's cap and trade regulation although the ISO may have possession of market data that could assist ARB's implementation of its regulatory programs.

ARB has issued a subpoena to the ISO to obtain information concerning transfers of electricity to serve California load in connection with administering

California's cap and trade program and mandatory reporting regulations.⁶ The ISO will work to ensure ARB receives responsive information pursuant to that subpoena. In addition, the ISO is willing to meet with ARB staff to clarify any information provided pursuant to the subpoena, and will use best efforts to respond to ARB's questions related to this information.

III. Conclusion

The ISO supports efforts to accurately track greenhouse gas emissions in California's electricity sector and will continue to work collaboratively with state agencies and all stakeholders to advance this objective. The ISO supports ARB's proposal to reinstate language that clarifies EIM transactions do not constitute resource shuffling. The ISO also supports ARB's proposed bridge solution to account, on an interim basis, for emissions from EIM transfers serving California load. ARB should, however, direct its staff to amend its regulations to retire the bridge solution once the ISO receives authority from its Board of Governors to implement enhancements to its market optimization. Finally, the ISO supports ARB's proposal to remove the ISO as a reporting entity under the mandatory reporting regulation.

Respectfully submitted,

/s/ Andrew Ulmer

Roger E. Collanton
General Counsel
Anthony Ivancovich
Deputy General Counsel
Andrew Ulmer
Director, Federal Regulatory Affairs
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: (916) 608-7209
Fax: (916) 608-7222

*Attorneys for the California Independent
System Operator Corporation*

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<http://www.caiso.com/Documents/2015-04-01CaliforniaAirResourcesBoardSubpoena.PDF>