

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA
ON THE REGIONAL INTEGRATION – CALIFORNIA GREENHOUSE GAS
COMPLIANCE INITIATIVE – SECOND UPDATE**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit the following comments on the ISO's Regional Integration – California Greenhouse Gas Compliance Initiative – Second Update and the Technical Workshop held on October 13, 2016 (the "Workshop Presentation"):

The discussion at the Technical Workshop highlighted the challenges to developing market designs for the Energy Imbalance Market ("EIM") and a potential regional ISO ("RISO") that will both maximize efficiency of resource utilization in the EIM or an expanded RISO BAA while ensuring that California's LSEs and generators are able to remain in compliance with applicable Greenhouse Gas ("GHG") regulations. As the Six Cities noted in their September 20, 2016 comments on the ISO's August 29, 2016 Issue Paper in this initiative, the potential scope of the challenge is even more daunting, as market participants in an expanded RISO BAA may be subject not only to California's GHG regulations but also to requirements adopted by other states, including potential obligations under the Clean Power Plan ("CPP"). These comments use the terms "GHG compliance" or "GHG compliance obligations" to refer generally to any applicable rules or regulations relating to reduction in carbon emissions from resources dispatched, available for dispatch, or scheduled through the EIM or RISO.

Of the three options discussed in the Technical Workshop, only Option 2 – modifying the optimization to maintain resource-specific cost and attribution of emissions – would appear to recognize and accurately reflect the cost impacts of GHG compliance obligations. Based on the discussion in the Technical Workshop, the Six Cities understand that it would not be possible to implement Option 2 at this time due to complexity and limitations in the ISO's optimization processes. Moreover, the potential effects of the Option 2 approach on EIM transfers and continued viability of the EIM construct would have to be evaluated fully based on a detailed prototype methodology. The ISO now proposes to pursue Option 3, which 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 LSEs.

For several reasons, the Six Cities do not support implementation of the Option 3 hurdle rate approach. First, applying a uniform hurdle rate to all energy transfers into California, however that hurdle rate may be developed, is inconsistent with the goal of accurately reflecting the costs for emissions in the prices for GHG-emitting resources. The Option 3 approach will create adverse incentives by disadvantaging low-emitting resources and advantaging high-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.

In the Six Cities' view, applying the Option 3 approach could produce outcomes less desirable from the perspective of atmospheric impacts than the "secondary dispatch" or "emissions leakage" problem the ISO is attempting to cure. The ISO has produced data demonstrating that the EIM has reduced overall emissions in the western region due to reduced curtailment of California renewable resources and substitution of energy from those resources for output from higher-emitting resources in other parts of the EIM footprint. Failure to recognize the overall atmospheric benefits of the EIM and applying a hurdle rate approach that could reduce the apparent costs of high-emitting resources could have the perverse result of increasing overall emissions in the broader region. If there is a statutory impediment to recognizing the benefits associated with reduced curtailment of California renewable resources, then the ISO should consider pursuing a legislative solution to remove those impediments. In the meantime, and until resource-specific attribution (*i.e.*, some form of an Option 2 approach) is feasible and has been shown to result in reasonable outcomes, the status quo approach is preferable to applying Option 3.

Submitted by,

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