

AWEA AND INTERWEST COMMENTS ON THE CAISO'S "REGIONAL INTEGRATION CALIFORNIA GREENHOUSE GAS COMPLIANCE" STRAW PROPOSAL

The American Wind Energy Association (AWEA) and Interwest Energy Alliance (Interwest) appreciate the opportunity to offer comments on the California Independent System Operator's (CAISO or ISO) Straw Proposal on *Regional Integration California Greenhouse Gas (GHG) Compliance and EIM GHG Enhancement* ("Straw Proposal"). AWEA and Interwest are supportive of a transition to a regional grid operator, as a regional market structure will capture the benefits and overall efficiencies gained from the consolidation of balancing authorities and market functions, as well as allowing California, and other Western states, to more readily access some of the highest quality wind in the country to efficiently and cost-effectively achieve renewable portfolio standards and clean-energy goals.

As mentioned in previous comments in this initiative, AWEA and Interwest believe that transparent GHG accounting and tracking is imperative for both those states with GHG regulations in place or expected in the near term as well as for those states that are unlikely to implement any sort of GHG regulation in the coming years. AWEA and Interwest are encouraged that the Straw Proposal outlines a path for enhanced GHG accounting and tracking within the EIM, which can also be extended to support GHG compliance in a regional ISO framework. The proposed two-pass market solution, referred to as "Option 2," achieves the key principles outlined by the CAISO earlier in this initiative. In particular, Option 2 has the benefit of providing individual resources with appropriate market signals (including GHG costs when appropriate), while also insulating states that do not have GHG compliance regimes from the costs associated with GHG compliance.

In previous comments in this initiative, AWEA and Interwest outlined a number of high-level principles. We are hopeful that the proposed solution (Option 2) can achieve many of those principles. Below AWEA and Interwest offer a few high-level comments for the ISO to consider as the implementation of Option 2, and a potential bridge solution for the EIM, move forward.

Education and Outreach will Continue to be Important

The education and outreach that has been conducted as part of this initiative is helpful in providing a foundation of knowledge for those stakeholders that had previously needed to understand the ISO's implementation of California's GHG regulations. Many of those stakeholders, including state agencies outside of California, may have a significant interest in the implementation of GHG compliance in a regional market, and in the EIM and, therefore, are beginning to monitor GHG compliance activities that impact the ISO. As development of a regional ISO moves forward, and even as the EIM continues to grow and expand, the ISO will need to continue the education and outreach that has been initiated as part of this process. It will be important for regulators and other stakeholders outside of California to understand the market solution and how the proposed solution will ensure that GHG compliance costs are appropriately isolated to those states that have GHG compliance regimes. AWEA and Interwest encourage the ISO to continue the education and outreach efforts that have been a part of this stakeholder process, as implementation of the GHG solution moves forward.

Within the EIM, a Bridge Solution is Reasonable, but should not Detract from Implementing the Long-term Solution

Implementation of the two-pass market solution, Option 2, for the EIM and the regional ISO is the most appropriate option for addressing GHG compliance in the long-run. However, as the ISO noted, implementing this solution will take time to complete. In the interim, a "bridge solution" will likely be necessary for the EIM. In the interim, AWEA and Interwest support the use of a bridge solution. Provided, however, that the bridge solution should be relatively simple (such as those that have been discussed within this stakeholder process) such that the development of a bridge solution does not detract from the development of the long-term (Option 2) solution in a timely manner.

Simplification is Necessary for the Two-Pass Run, but Transparency in the Simplification Details will be Critical

AWEA understands that simplifying assumptions will be necessary in order to execute the two-pass market solution, especially within a regional ISO framework. While simplification of the market optimization could possibly reduce the accuracy of the first pass' results, it will be far more accurate than any other solution that has been identified. Even with the types of simplifications proposed, the first pass market optimization appears likely to achieve a high level of accuracy. To ensure that accuracy of the first pass is appropriately high, the ISO should ensure it is transparent about the simplifications that are being made, including continuing to discuss with stakeholders the appropriateness of the simplifications as ISO market designs continue to evolve.

The ISO Should Implement a Process to Ensure any Unintended Consequences are Identified and Mitigated

While the proposed two-pass solution is an elegant means of addressing varying GHG costs between states, within both the EIM and within a regional ISO framework, it is AWEA and Interwest's understanding that a two-pass market solution has not been extensively tested in market operation. We are not aware of the use of a two-pass market solution as a standard market practice in other ISOs or RTOs. Therefore, though AWEA has confidence that the proposed solution will work, it will be important for the ISO to continue to monitor the market results, GHG attribution, and GHG compliance costs to evaluate whether there are any adverse unintended consequences that arise. AWEA and Interwest expect adverse unintended consequences to be unlikely but encourage an active evaluation by the ISO. Additionally, the ISO should develop proactive measures that would help identify if any unintended consequences do arise. This type of proactive stance should be adopted within the EIM framework and also within the regional day-ahead framework.

Conclusion

In conclusion, AWEA and Interwest appreciate the ISO's leadership in this area and the ISO's continued work to develop workable solutions to address the broad and diverse needs of various states and stakeholders across the West. We look forward to continuing to engage on this important initiative.