



Air Resources Board



Matthew Rodriguez
Secretary for
Environmental Protection

Mary D. Nichols, Chair
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Sacramento, California 95812 • www.arb.ca.gov

Edmund G. Brown Jr.
Governor

April 20, 2017



Mr. Andrew Ulmer, Director
Federal Regulatory Affairs
California Independent System Operator
250 Outcropping Way
Folsom, California 95630

Dear Mr. Ulmer:

The California Air Resources Board (ARB) submits these comments on the Regional Integration California Greenhouse Gas Compliance and Energy Imbalance Market (EIM) Greenhouse Gas Enhancement Straw Proposal, released by the California Independent System Operator (CAISO) on November 17, 2016.¹ ARB submits these comments in response to CAISO's request that ARB engage in its stakeholder process for enhancing the EIM. ARB supports CAISO's efforts to establish a robust accounting framework for greenhouse gas (GHG) emissions in the EIM that also promotes a well-designed potential future regional expansion. ARB would like to thank CAISO for its ongoing collaborative efforts with ARB to design EIM in a manner that ensures the accurate accounting of GHG emissions in the State of California as required by Assembly Bill 32 (AB 32).

ARB and CAISO have jointly and individually consulted with stakeholders and considered various options to fully account for the impact on the atmosphere from GHG emissions that occur in connection with EIM transfers into California to serve California load. This progress is reflected in CAISO's proposals as well as in the ongoing ARB regulatory amendment processes for the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (MRR) and the Cap-and-Trade Regulation. ARB supports further development of CAISO's two-pass market optimization approach to provide a rigorous accounting framework, which is designed to more accurately reflect GHG emissions from serving California load than the current EIM GHG award methodology.

¹ "Regional Integration California Greenhouse Gas Compliance and EIM Greenhouse Gas Enhancement Straw Proposal" Published November 17, 2016, accessed January 20, 2017:
<https://www.caiso.com/Documents/StrawProposal-RegionalIntegration-EIMGreenhouseGasCompliance.pdf>

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

ARB understands that the two-pass market optimization will operate within multiple CAISO markets, could be reflected in regional expansion designs, and may need to address multiple GHG regulatory frameworks across the West. Therefore, it is very important to carefully design the two-pass approach. ARB intends to work with CAISO to ensure the final design of the two-pass solution supports accurate GHG accounting. ARB is aware that as CAISO works to design an implementable two-pass solution, reasonable changes to the CAISO algorithm may be needed to enable an efficient and timely optimization. ARB will work with CAISO and stakeholders to ensure these changes still result in a transparent and rigorous accounting structure to support ARB's implementation of California's climate and energy policies.

While ARB supports CAISO's efforts to establish a robust two-pass market optimization, we must also ensure in the interim that GHGs emitted to the atmosphere are being accounted for in accordance with AB 32. With input from CAISO and stakeholders, ARB has developed a solution through its current regulatory amendments process for MRR and the Cap-and-Trade Regulation intended to act as a bridge to support accurate accounting while the longer-term two-pass market optimization is being developed by CAISO. Based on ARB's current understanding of CAISO's proposal, the calculation under ARB's bridge solution, identifying emissions resulting from California load not being accounted for in the current EIM deeming methodology, reasonably and conservatively captures GHG emissions from EIM market operations, pending further improvements to the EIM algorithm. The bridge solution will provide EIM market participants greater certainty on the interaction between MRR and Cap-and-Trade's GHG accounting framework and the EIM.

ARB will continue engagement on specific details of the two-pass solution of relevance to our regulatory programs. These include details ARB and CAISO have previously identified, including transfers of electricity from resources outside the territories of current EIM participants, GHG accounting with multiple GHG regimes, and designing an effective and timely information-sharing process.

ARB and CAISO have already engaged in extensive dialogue and meetings to coordinate our processes as best as possible. We look forward to working together to further develop policies and markets that maintain the integrity of AB 32 accounting and ensure a robust electricity grid.

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If you have any questions regarding this comment, please contact Ms. Rajinder Sahota, Assistant Chief, Industrial Strategies Division at (916) 323-8503 or via email at Rajinder.Sahota@arb.ca.gov.

Sincerely,


Richard W. Corey
Executive Officer

cc: Rajinder Sahota
Assistant Division Chief
Industrial Strategies Division