

**JOINT COMMENTS OF THE EIM ENTITIES
REGIONAL INTEGRATION AND EIM GREENHOUSE GAS COMPLIANCE
STRAW PROPOSAL
December 15, 2016**

A. INTRODUCTION

Energy Imbalance Market (“EIM”) current and future participants, PacifiCorp, NV Energy, Arizona Public Service, Puget Sound Energy, Portland General Electric, and Idaho Power (“EIM Entities”) hereby submit the following comments to the California Independent System Operator (“ISO”) regarding the Regional Integration and EIM Greenhouse Gas (“GHG”) Initiative Straw Proposal issued on November 17, 2016 (“Straw Proposal”). The EIM Entities appreciate the opportunity to provide comments for consideration by the ISO.

B. COMMENTS

1. The ISO’s Proposal to Focus on the Implementation of “Option 2” that will Modify the ISO Optimization

Based on the information presented to date, the EIM Entities appreciate the ISO’s proposal to focus its efforts on the implementation of Option 2, which will modify the ISO optimization to attribute GHG costs to resources that are incrementally dispatched as a result of California load participation in the EIM while maintaining resource-specific cost and attribution. As noted in prior comments, Option 2 does not appear to present the potentially significant issues that may have been raised by the selection of Option 3, which proposed to implement a distortionary residual hurdle rate in the EIM. Further, the EIM Entities support the ISO’s decision to focus on a long-term and more durable approach, rather than attempting to address this very complicated issue by January 2018.

Though supportive of the overall direction, the EIM Entities are interested in better understanding how the ISO will ensure the simplifications proposed for the first pass “GHG Base” run, which are needed to ensure the market is able to solve every five minutes, will allow for sufficiently accurate outcomes and will not have any unintended impacts on the efficiency, accuracy, and reliability of the EIM dispatch. Accordingly, the EIM Entities request that the ISO present further information to assist market participants and stakeholders, including the California Air Resources Board (“CARB”), in assessing the efficacy of this potential approach.

2. Coordination With CARB Should Be More Transparent; Changes Proposed by the ISO Cannot Be Implemented Without Changes to CARB Regulations

The EIM Entities understand that the ISO and CARB are currently coordinating to develop changes to the EIM optimization to address the secondary dispatch issue raised by CARB with regard to entities under their jurisdiction. This coordination is critical because the ISO’s proposal represents a fundamental shift in the way California will account for GHG emissions associated with electricity imported through the EIM. CARB currently has the responsibility for this accounting, and for ensuring that it is accurate. Accordingly, the ISO’s process cannot be implemented without a concurrent process and regulatory amendments at CARB. Similarly,

CARB cannot move forward with shifting its energy import accounting methodology paradigm without a concurrent technical process and potential tariff amendment by the ISO.

Even assuming the ISO's two-pass optimization is technically sound and sufficiently accurate, the change in GHG accounting will likely surface legal and policy questions regarding the appropriate scope and reach of California's cap-and-trade program. For example, while the ISO proposal appears to be designed to target emissions with a causal relationship to California load service, it is unclear if this supply-focused accounting would be within CARB's jurisdiction, which under Assembly Bill 32 is specifically limited to, and linked with, wholesale energy imports. Whether or not the emissions identified by the ISO's proposal may be regulated by CARB is a threshold question that should be addressed before the ISO moves forward with a long-term implementation plan. These and other legal and policy questions should be addressed by CARB with stakeholder input. To date, CARB has not adequately described the issue it is proposing to solve nor has CARB clearly articulated the legal and policy support for a particular approach. It is critical that any modifications to energy markets are undertaken and implemented only if they are fully legally supportable.

Accordingly, the EIM Entities request that the ISO, ideally in conjunction with CARB, establish a timeline setting forth the implementation of any changes to market optimization as well as concurrent rulemaking activity at CARB. The EIM Entities encourage the ISO, CARB, and stakeholders to explore and resolve these issues as soon as practicable such that implementation of the long-term solution, if approved, isn't unduly delayed.

C. CONCLUSION

The EIM Entities are grateful for the opportunity to submit these comments and appreciate the ISO's consideration.