

## Stakeholder Comments

### Regional Integration -- Greenhouse Gas Compliance Initiative

#### October 13, 2016 Technical Workshop

Submitted by	Company	Date Submitted
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MID thanks the California Independent System Operator Corporation (“CAISO”) for the opportunity to comment on the CAISO’s initiative for Greenhouse Gas Compliance. This effort, MID understands, would have more immediate implications for the Energy Imbalance Market (“EIM”) but is also contemplated to apply to a potential Regional Independent System Operator (“Regional ISO”). A driver of this effort in part is to respond to the California Air Resources Board’s (“CARB”) concerns regarding unaccounted greenhouse gas emissions, such emissions being caused by the secondary dispatch emissions described during the technical workshop.

At the October 13, 2016 Technical Workshop, the CAISO described three options to help address these concerns. Presumed in the analysis applied in developing the three options is a counterfactual, where if the market were run without dispatch to California load as a factor, out-of-state resources would be dispatched differently to serve out-of-state load. The concept behind the counterfactual is to reach a better understanding of how much the California market actually causes emitting resources to be ramped up, thereby increasing emissions.

Option One would consist, in summary, of a balancing account run against a counterfactual on a periodic basis (e.g., monthly) used to account for proper emissions credit retirement. MID understands that Option One is not possible, given CARB policy concerning inter-temporal benefits. Option Two would involve two runs of the market, the first to determine the counterfactual, showing the dispatch that would have occurred without EIM or regional integration under a Regional ISO. The second run would run the market with EIM or with regional integration, such that the delta between the two runs would show the change in dispatch and emissions due to the EIM or regional integration for dispatch into California. Option Three would develop a residual emissions rate for energy flows into California, with revenues distributed appropriately to purchase instruments to surrender to CARB. MID understands that the CAISO would prefer that the Option implemented to address CARB’s concerns regarding EIM be also implemented under a Regional ISO, though allowing for the possibility of an eventual transition from an Option Three scenario to an Option Two scenario.

MID is concerned that Option Three, while perhaps simpler to implement in the short term, will lead to inefficiencies. Option Three would require “rough justice” to arrive at a hurdle rate, and would unnecessarily add costs to California load. Such costs would create a less efficient market, applying costs to generation that does not really cause such costs. While MID agrees that accurate greenhouse gas accounting is important to achieving the state’s climate goals, MID does not believe that absolute accuracy should be pursued at all cost. The resulting costs of the proposed hurdle rate solution could easily outweigh the benefits of pursuing this option.

Instead, Option Two seems to present an opportunity to use real market data. While MID understands that the technological challenges may make the initial run of the market contemplated under Option Two less precise than the ideal situation, greater precision will be achieved over time. MID believes that Option Two represents a more efficient market-based solution as compared to Options One and Three and recommends further discussion around this option to more thoroughly consider the details and potential outcomes. MID also recommends moving directly to a market-based solution rather than implementing Option Three which has its own flaws, and is subject to policy preferences and judgment calls in arriving at the methodology for calculating the hurdle rate and allocating the resultant revenues. In implementing Option Three to start with, it is possible that Option Three could remain in place longer than is necessary, or worse, given the press of business and unforeseen prioritization of future initiatives, be made into an essentially permanent solution. For these reasons, MID supports a solution closer to the concept outlined for Option Two, recognizing that it will be imperfect when initially implemented, but confident that it will improve over time.

MID reserves the right to change its position as to any of the matters above or raise new issues on Greenhouse Gas Compliance at a later date.