

Sacramento Municipal Utility District (SMUD) Comments on CAISO November 17, 2016 Straw Proposal on Regional Integration California Greenhouse Gas Compliance and EIM Greenhouse Gas Enhancement

Date Submitted: December 15, 2016

SMUD thanks the CAISO for the current draft proposal, which has many improvements over prior draft proposals.

General Comments

Comment 1

SMUD supports the CAISO in proposing a two-pass optimization, as has been labeled Option 2, as the preferred option for implementation. Providing an accurate, robust, and transparent modeling structure for GHG emissions should be the priority even if it does take longer than other options to develop.

Comment 2

SMUD has observed that the straw proposal appears written with the assumption that all EIM resources will be located outside of California. While footnote 12 did observe that some EIM resources could reside in California (for example, BANC's recent approval to move forward with EIM implementation, and correspondingly, SMUD Board's recent approval to proceed with EIM negotiations), SMUD requests that the proposal be updated to reflect that participating EIM resources may be located within California.

Comment 3

Similarly, in the Section 6 discussion of regional ISO expansion, the CAISO should recognize that there will be non-ISO resources located within California that have Cap-and-Trade obligations. Such resources should receive different treatment at ISO interties, than resources not located in California.

Specific Comments

Comment 4

SMUD proposes to add a principle to Section 4.4 that recognizes that some EIM entities may be inside California, subject to Cap-and-Trade compliance obligations:

“Ensure that the solution can accommodate new EIM areas that are within California.”

Comment 5

SMUD requests the CAISO clarify some specific supplier treatment and load treatment issues in the next draft proposal to reflect that EIM entities that may be located within California have Cap-and-Trade compliance obligations.

Supplier Treatment. EIM resources should be given a designation related to the state in which they are located, which ultimately could be used for state-by-state compliance obligations. This seems to be the direction proposed in Section 6 of the Straw Proposal, for implementation in the case of regional expansion of the ISO. However, to accommodate SMUD's concern, this may be needed in the current EIM implementation for GHG. Initially, until other states establish GHG compliance, only out-of-California resources in the EIM would be required to provide the separate GHG bid component for EIM bids. In-California EIM resources would be treated differently than not-in-California resources for the purposes of the GHG bid portion of their EIM bids. Finally, it appears that the example formulas do not account for the distinction between whether an EIM resource is located in or out of California.

Load Treatment. Presumably, EIM load in California would pay the full LMP without the GHG-specific adjustment proposed for out-of-state EIM load. In addition, California EIM load should not be included in the first pass in determining the non-California GHG allocation base. The proposal should be modified to make these two distinctions clear.

Comment 6

In Section 6.1.2, the CAISO states that "Intertie scheduling points in a multi-state balancing authority are not considered part of any GHG regime and will always be included in the non-GHG regime." This is incorrect. An intertie resource should be considered in a GHG regime if it is located in a state that has or implements a carbon compliance obligation. For instance, resources located within California, but not within the CAISO footprint, should be designated as being within California's GHG regime, and therefore should not have to submit separate GHG compliance prices with their market bids. An intertie located strictly within California should be given the same treatment proposed for a generator located inside California, and be given the "CA GHG" flag by default,

Comment 7

Section 6.1.1 includes a proposed mechanism whereby a resource located outside of California could differentiate between generating capacity designated for California by contract, and other capacity that is bid into EIM. SMUD supports that this mechanism be included in the EIM implementation of Option 2.

Comment 8

It's not clear in the proposal, which, if any, of the section 6 features would be implemented initially, prior to a regional expansion of the ISO. Some of the features referenced may be useful to facilitate distinguishing EIM resources that are located within California from EIM resources not located in California.

Comment 9

Finally, SMUD has proposed to CARB, and includes in our comments here the same proposal, that implementing a bridging solution is not necessary, and will only serve to create a new set of "rules" that will be replaced when the final solution for EIM is implemented.