

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE REGIONAL INTEGRATION CALIFORNIA GREENHOUSE GAS COMPLIANCE ISSUE PAPER**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit the following comments on the ISO's Regional Integration California Greenhouse Gas Compliance Issue Paper posted on August 29, 2016 (the "Issue Paper"):

The ISO, its market participants, and potential new Participating Transmission Owners face daunting challenges to shape a regional ISO ("RISO") market design that will both maximize efficiency of resource utilization in the expanded RISO BAA while ensuring that California's LSEs and generators are able to remain in compliance with applicable Greenhouse Gas ("GHG") regulations. Indeed, the potential scope of the challenge is much greater, as market participants in an expanded RISO BAA may be subject not only to California's GHG regulations but also to requirements adopted by other states, including potential obligations under the Clean Power Plan ("CPP"). These comments use the terms "GHG compliance" or "GHG compliance obligations" to refer generally to any applicable rules or regulations relating to reduction in carbon emissions from resources dispatched, available for dispatch, or scheduled through the RISO.

There is a clear tension between optimization of resource dispatch and tracking utilization of energy from resources so as to correctly assign responsibility for GHG compliance. Moreover, the complexity of addressing GHG compliance obligations will expand dramatically to the extent portions of the RISO BAA are subject to different GHG compliance obligations imposed by multiple states. The RISO dispatch optimization process must be able to recognize and accurately reflect the cost impacts of GHG compliance obligations, and the RISO must be able to produce data that will allow resource owners and LSEs to achieve and demonstrate compliance with applicable obligations. Further, the RISO market design should ensure that resources and LSEs bear the costs for compliance obligations that are applicable to them but not for compliance obligations applicable only to market participants in other states.

The Six Cities are unable to offer a comprehensive set of recommendations to address these highly complex and potentially contentious issues. However, the Six Cities recommend that the following principles be incorporated in any proposed GHG compliance framework for a RISO:

- 1) There must be an institutionalized and continuing process for coordination and collaboration among the RISO market design and operating staff and all state regulators responsible for developing and enforcing GHG policy and regulations applicable to market participants in any part of the RISO. The RISO cannot simply be reactive but must take on the primary responsibility for establishing and

maintaining these coordination processes. For example, if the CPP becomes effective, the RISO should work proactively to coordinate and harmonize CPP compliance efforts across the states included in its footprint. The RISO market design and operating practices should seek to ensure that market participants are not put at risk of facing penalties or uncompensated costs as a result of RISO activities over which the market participants have no control. At the same time, the collaboration and coordination processes among the RISO and state regulators should provide for participation by interested market participants and members of the public and should be as transparent as possible.

- 2) To maximize efficiency of resource utilization, to facilitate achievement of clean energy objectives, and to ensure that LSEs receive accurate information regarding their supply costs, the RISO's bidding rules must allow suppliers to capture in their bids the full costs of meeting GHG compliance obligations. A corollary principle is that the RISO's optimization processes must accurately reflect the costs for GHG compliance.
- 3) If there are aspects of GHG rules or regulations that cannot be monetized and reflected in bids, then the RISO's dispatch processes must include functionality to respect such non-economic restrictions.
- 4) To facilitate compliance with GHG obligations by LSEs and suppliers, the RISO market processes must be able to track, maintain, and provide to market participants all data necessary to enable and demonstrate compliance with all applicable GHG regulations.
- 5) Specific to the California Air Resources Board ("CARB") regulations applicable to entities in California, the RISO must ensure that its dispatch processes respect prohibitions against resource shuffling as well as compliance with other GHG obligations.
- 6) With respect to the question at the bottom of page 9 in the Issue Paper, it would not be appropriate for the ISO to impose a rule that all energy self-schedules in the non-California zone serve only load outside of California. Such a rule not only would restrict the ability of LSEs in California to make beneficial use of external resources to which they have entitlements but also could expose them to accusations of resource shuffling. Documenting self-schedules for external resources contracted to California LSEs appears to be straightforward, and the

GHG compliance obligation would be the responsibility of the entity submitting the self-schedule.

Submitted by,

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