California ISO

California Independent System Operator Corporation

November 30, 2018

Via Electronic Submission
http://www.arb.ca.gov/lispub/comm/bclist.php

Clerk of the Board
Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on Modified Text to Proposed Amendments to California Cap and Trade and Mandatory Greenhouse Gas Reporting Regulations

Dear Clerk of the Board:

The California Independent System Operator Corporation (ISO) submits these comments on the modified text to proposed amendments to California's cap and trade and mandatory greenhouse gas reporting regulations issued by the California Air Resource Board (ARB). The modified text would establish a compliance obligation and accounting rules for Energy Imbalance Market (EIM) outstanding emissions.[1] Consistent with its comments on ARB's initial proposed amendments issued in September 2018, the ISO continues to recommend that ARB not adopt these amendments. Instead, ARB should maintain its existing "bridge" approach for EIM outstanding emissions for the 2019 cap and trade compliance year. This approach will allow ARB and stakeholders to monitor enhancements the ISO recently made to the EIM to provide a more accurate attribution of which EIM participating resources support EIM transfers to serve California demand and reduce the potential for secondary dispatch that may result in EIM outstanding emissions.[2].

I. Background

The ISO supports efforts to track and reduce greenhouse gas emissions in California's electricity sector and will continue to work collaboratively with state agencies and stakeholders to advance this objective. Among other efforts, the ISO's

[1] ARB issued modified text to proposed amendments for public comment on November 15, 2018.

[2] The phenomenon known as secondary dispatch occurs because least cost dispatch has the effect of attributing EIM transfers to lower emitting participating resources based on their combined energy bid and greenhouse gas bid adder. Other, potentially higher-emitting, resources may need to backfill this energy attribution in order to serve load outside of the ISO.

implementation of the EIM has facilitated the integration of increasing amounts of renewable energy resources in the Western Interconnection that have helped reduce greenhouse gas emissions from the electricity sector. The EIM is an extension of the ISO's real-time market that helps balance supply and demand in the ISO balancing authority area as well as in EIM Entities' balancing authority areas. The use of the EIM permits other balancing authority areas to take advantage of the ISO's real-time market processes and facilitates economic transfers of power across the combined ISO and EIM footprint based on available transmission capability. These transfers have in part supported the operation of non-emitting clean resources. Since its inception, the EIM has avoided the curtailment of over 734,437 MWh of renewable output in the ISO balancing authority area, which has displaced an estimated 314,258 metric tons of carbon dioxide equivalents.[3] As more renewable energy resources develop in the West, the EIM will continue to facilitate these emission reductions. ARB should acknowledge that the EIM creates significant emission reduction benefits across the region as ARB considers rule changes related to EIM outstanding emissions.

Under ARB's current cap and trade and mandatory greenhouse gas reporting regulations, ARB treats EIM transfers serving ISO demand in California as electricity imports. ARB relies on the ISO's market results as reported by EIM participating resource scheduling coordinators to identify resources that support those transfers and applies a specified source emission rate to those imports. ARB imposes reporting and compliance obligations on EIM participating resource scheduling coordinators representing these resources.

In response to stakeholder concerns that the ISO's least cost dispatch in the EIM may result in secondary dispatch when EIM transfers serve California demand, ARB adopted regulatory changes to account for emissions associated with the potential for secondary dispatch. These changes established an interim approach or "bridge" to account for what ARB identifies as EIM outstanding emissions. To account for EIM outstanding emissions, ARB currently calculates the difference between total EIM transfers at ARB's unspecified source emission rate less the total resource-specific emissions attributed to EIM participating resource scheduling coordinators as a result of the ISO market optimization. ARB retires allowances designated by ARB for auction that remain unsold in ARB's Auction Holding Account for more than 24 months in the amount of EIM outstanding emissions. In addition, the ISO conducted a stakeholder process to design changes to its EIM bidding rules to develop a more accurate attribution of which EIM participating resources support EIM transfers to serve California demand and reduce the potential for secondary dispatch. The ISO implemented these enhancements on November 1, 2018.[4]

---

[3] *See* Western EIM Benefits Report Third Quarter 2018 dated October 29, 2018, Table 7 at 14, available at https://www.westerneim.com/Documents/ISO-EIMBenefitsReportQ3-2018.pdf.

[4] The federal Energy Regulatory Commission issued an order accepting the ISO's tariff revisions on October 29, 2018: http://www.ferc.gov/CalendarFiles/20181029141944-ER18-2341-000.pdf?csrt=15248796463017711957.

II. ARB should maintain its current "bridge" approach for the 2019 cap and trade compliance year.

The modified text issued by ARB would amend its regulations to recognize an EIM Purchaser as a compliance entity for EIM outstanding emissions. These entities would include electric distribution utilities operating in California that directly or indirectly (through a scheduling coordinator) purchase any electricity through the EIM to serve California demand. ARB would calculate the emission intensity of EIM outstanding emissions at the unspecified source emission rate less any resource-specific emissions attributed to EIM participating resources by the ISO's market optimization. Under the modified text, each EIM Purchaser would receive a share of EIM outstanding emissions based on total retail sales and ARB would retire corresponding allowances allocated to the EIM purchasers.

The ISO encourages ARB not to adopt the proposed amendments. ARB should maintain its current "bridge" approach through at least the 2019 reporting year to assess the magnitude of secondary dispatch emissions that may occur under the ISO's new EIM bidding rules. ARB could then use such information to guide what, if any, regulatory changes are necessary to address any remaining secondary dispatch effects.

Respectfully submitted,

By: *_/s/ Andrew Ulmer_*

Roger E. Collanton
General Counsel
Anthony J. Ivancovich
Deputy General Counsel
Andrew Ulmer
Director, Federal Regulatory Affairs
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: (916) 608-7209
Fax: (916) 608-7222
Email: aulmer@caiso.com