

**Comments of the Western Power Trading Forum
on 15-Day Proposed Changes to the Cap and Trade
Regulation**

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The Western Power Trading Forum¹ (WPTF) welcomes the opportunity to provide input to the California Air Resources Board (CARB) on its proposed 15-day amendments to the Cap and Trade program for the third compliance period and the post-2020 program. WPTF's comments below address Staff's proposal to address greenhouse gas (GHG) accounting in the Energy Imbalance Market.

GHG Accounting in EIM

WPTF has agreed with CARB concerns that the way the EIM is currently dispatching and assigning generation to CAISO load is distorting dispatch and, in some cases results, in increased emissions in the combined CAISO/EIM footprint. To address this concern, we have supported consideration of modifications to how EIM algorithm treats carbon costs in the dispatch and allocation of generation to serve CAISO load.

WPTF considers that the so-called 'two-pass' approach being developed by the California Independent System Operator (CAISO) offers an appropriate long-term solution to resolve the current EIM GHG accounting problems. This approach would restrict the eligibility of a resource's output to be deemed delivered to California to incremental generation above a counterfactual economic dispatch optimized for the EIM footprint without transfer to California. To the extent that low-cost, zero-emissions resources are dispatched in the first economic-base run, output of these resources would be attributed to non-California load and thus not available to displace California generation. This would result in gas generation (both California and external) being considered more often for attribution to California, compared to the current EIM algorithm.

We recognize that CAISO has a number of details to work out with respect to implementation of the approach, and that changes to the algorithm will necessitate approval by the Federal Energy Regulatory Commission. However, we are optimistic that the design details can be resolved, and the approach approved and implemented by 2018. To this end, we urge CARB to publicly indicate its support for the two-pass approach, and to work closely and transparently with the CAISO to facilitate timely implementation.

Until such a time that the two-pass approach is in place, WPTF supports implementation of CARB's proposed interim solution. As we understand the interim solution, as of 2018, CARB will calculate the quantity of 'outstanding emissions' from EIM generation that are attributable electricity consumption in California, but not currently assigned to EIM imports via the EIM algorithm. These outstanding emissions will be determined by multiplying the total volume of EIM imports for an interval by the default emission rate and subtracting the quantity of emissions actually assigned by the EIM algorithm in that interval. CARB would then deduct a quantity of allowances equal to the outstanding emissions from the unsold allowances in the auction holding account.

We believe that CARB's proposed interim solution will more completely account for emissions associated with electricity consumption in California, while avoiding the distortionary market impacts of previous proposals. However, we request that CARB clearly indicate in the regulatory documents that

¹ WPTF is a diverse organization comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West. WPTF has over 80 members participating in power markets within California and elsewhere across the United States.

implementation of this approach is intended to be temporary, and that staff will propose further regulatory amendments to reflect the EIM two-pass approach once finalized.

Lastly, WPTF strongly objects to CARB's retention of language proposed in the 45-day package that would exempt EIM imports from the resource shuffling safe-harbors. As WPTF has previously stated, the assignment of EIM dispatch to California load is a function of the EIM algorithm and market conditions – not the actions of EIM participating resources. It would be completely inappropriate to potentially subject EIM participating resources to resource shuffling accusations for EIM market results that are out of the control of market participants.

CARB staff have previously indicated that such language was proposed solely as a place holder until the EIM GHG accounting concerns could be addressed. Given that an appropriate intermediate and long-term solutions have been identified, CARB should eliminate the language exempting EIM imports from resource shuffling safe harbors.