

**Comments of the Western Power Trading Forum
to the California Air Resources Board
on Amendments to the Cap and Trade Regulation**

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The Western Power Trading Forum¹ (WPTF) appreciates the opportunity to provide input to the California Air Resources Board (CARB) on the Proposed Amendments to the California Cap and Trade Regulation.

On October 12th, the California Air Resources Board (CARB) Staff held a workshop on potential modifications and process forward on the post 2020 Cap and Trade Program. The staff presentation at this workshop indicated that substantive changes to the program are required in these main areas in response to Assembly Bill 398: allowance allocation methods, establishment of an allowance price ceiling and revision of the Allowance Price Containment Reserve (ACPR), and changes to offset limits and offset project requirements. WPTF offers no comment on these areas at this time, but looks forward to working with ARB Staff and providing input as substantive proposals are developed.

WPTF recommends additional areas for change in the rule-making process: First, changes to will likely be needed to account for the California Independent System Operator's (CAISO) modification of the Energy Imbalance Market (EIM) algorithm for greenhouse gas (GHG) emissions. Under the proposed approach being developed by the CAISO, the EIM algorithm would determine the dispatch of EIM resources in two passes. The first pass would optimize the dispatch of EIM resources without consideration of any energy imbalance within California itself. Only resources that have dispatchable capacity after this first-pass would then be eligible to serve CAISO load when optimizing for the entire footprint, including California, in the second pass.

To ensure that resources that are legitimately committed to California load, such as Renewable Portfolio Standard and resource-adequacy resources, are dispatched and assigned to California load, the algorithm will need a way to identify these resources as "California supply". Because the two-pass approach is being developed in response to CARB's concern about incorrect attribution of GHG emissions associated with EIM imports, and because the designation of California supply must be consistent with cap and trade program rules, WPTF believes the criteria for designating resources as California supply should be clearly delineated in the regulation. Additionally, the Mandatory Reporting Regulation may need to be modified to enable reporting and verification of imports of resources designated as California supply. WPTF therefore requests that CARB plan for such changes during the rule-making.

Second, WPTF is concerned that the change in industry allowance allocations due to the reduction in the industry assistance factor (IAF) for some entities over the 2017 – 2020 period, and AB398's subsequent full reinstatement of the 100% IAF, has the potential to cause market

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 60 members participating in power markets within California, western states, as well as other markets across the United States.

disruption due to the volatility in allowance demand from affected industrial entities. CARB should provide clarity on the timing and process for reinstatement of the 100% IAF as soon as possible to minimize market impacts.

Third and finally, WPTF requests that CARB eliminate the holding limit. The current holding limit calculation is arbitrary and disadvantages large covered entities, precluding them from effectively managing their costs of compliance. With linkage to Quebec, and now Ontario, the size and liquidity of the allowance market has increased, while the opportunity for individual entities to exercise market power has decreased. WPTF considers the auction purchase limit, and position limits in the secondary markets, sufficient to ensure that entities do not hoard allowances or otherwise affect the market. We therefore recommend that CARB eliminate the allowance holding limits for the post 2020 period.