

JOINT COMMENTS OF THE EIM ENTITIES
CALIFORNIA AIR RESOURCES BOARD CAP-AND-TRADE AND MANDATORY
REPORTING PROGRAM DECEMBER 21, 2016 PROPOSED AMENDMENTS
January 20, 2017

A. INTRODUCTION

Energy Imbalance Market (“EIM”) current and future participants, PacifiCorp, Arizona Public Service, Puget Sound Energy, Idaho Power, Portland General Electric, and Seattle City Light (“EIM Entities”) hereby submit the following comments on the California Air Resources Board (“ARB”) December 21, 2016 proposed amendments to the cap-and-trade program and mandatory greenhouse gas reporting rule. The EIM Entities appreciate the opportunity to provide comments for consideration by ARB.

Since its inception in 2014, the EIM has produced substantial economic and environmental benefits for customers both inside and outside of California. The geographical diversity of loads and resources participating in the EIM enables improved integration of renewable resources which can be followed more closely and at lower cost using the EIM’s wide-area dispatch model. The geographic diversity of the multi-state EIM also reduces the curtailment of renewable resources by having access to more resources capable of being displaced by carbon-free generation in real-time. The California Independent System Operator (“ISO”) has estimated EIM benefits to customers totaling \$114.35 million from November 2014 through September 2016.¹ In terms of environmental benefits, the ISO calculates in the first three quarters of 2016 that EIM dispatch reduced GHG emissions in the footprint by 143,695 metric tons.² These benefits are expected to grow in magnitude with the recent joining of Arizona Public Service and Puget Sound Energy in October 2016 and as the EIM continues to expand with, Portland General Electric (2017), Idaho Power (2018), and Seattle City Light (2019) and beyond.

Given the realized and expected future benefits, the EIM Entities have a considerable stake in ensuring that the EIM continues to operate in such a manner that enables these important benefits to continue. The following comments are provided in this context.

¹ ISO EIM Benefits Report Q2 2016, http://www.caiso.com/Documents/ISO-EIMBenefitsReportQ3_2016.pdf.

² *Id.*

B. COMMENTS

1. The EIM Entities Accept ARB's Proposed "Bridge" Solution

In the December 21, 2016 proposed amendments, ARB proposes to adopt an interim "bridge" solution to account for emissions associated with energy imported into California via the EIM. The bridge solution, which essentially requires the retirement of allowances equivalent to EIM outstanding emissions reported by the ISO, is proposed to be put in place until a more permanent technical solution is developed by the ISO. The EIM Entities agree that in light of the potential market disruption associated with prior proposals, an interim solution that is conducted outside of the EIM optimization is appropriate. The adoption of this interim solution will allow time for ARB, the ISO, and stakeholders to develop a more robust and durable long-term approach.

With respect to the development of a longer-term approach, the EIM Entities recommend better alignment between the ISO and ARB stakeholder processes. Any ISO process involving changes to the EIM market optimization will require proposals for input by stakeholders, CAISO Board approval, drafting appropriate tariff changes, Federal Energy Regulatory Commission (FERC) review, updates to Business Practice Manuals, and market software testing and updates. At the same time, ARB must address potentially important policy concerns and regulatory changes associated with how it accounts for electricity imports under the EIM. Changes to the EIM optimization and to ARB regulations must be closely synced so that market participants are able to comply with changing regulations. The EIM Entities recommend that, short of conducting a joint stakeholder process, ARB and the ISO develop a joint timeline showing the timing of technical implementation and FERC approval alongside ARB rulemaking activity.

2. ARB Should Not Exclude EIM from the Resource Shuffling Safe Harbor

ARB should not exclude EIM from the resource shuffling safe harbor. In the December 21, 2016 proposed amendments, ARB continues its proposal to exclude EIM from the resource shuffling safe harbor without any additional explanation or articulation of how it believes resource shuffling may be a concern in the EIM. The EIM Entities are very concerned with this approach: entities participating in the EIM do not control how resources are dispatched or how they are deemed to be delivered to California. Participating entities are therefore unable to reduce a compliance obligation by substituting one source for another—they cannot shuffle their resources. Though ARB has articulated vague concerns regarding emissions leakage in EIM, ARB has not articulated specific concerns with respect to how resource shuffling is or may be occurring in EIM. ARB should not penalize, or threaten to penalize, entities for activity over which they have no control without further explaining its specific concerns.

Though ARB staff indicates that it anticipates that it may withdraw the proposed modification to the safe harbor provision in a future 15-day notice package, this is not sufficient assurance for entities participating in EIM, or considering participation in the EIM, who may face significant penalty exposure for activities over which they have no control. The specter of such penalties, however remote, may create an unacceptable level of regulatory risk for many entities and has the potential to stifle the growth of the EIM. As noted above, the EIM is producing significant financial and environmental benefits. At a bare minimum, ARB should not introduce this level of regulatory uncertainty and risk into this well-functioning and beneficial market without

significantly more information regarding its concerns and/or guidance to market participants as to how to avoid penalty exposure. As such, at this time, no proposal that removes EIM transactions from the resource shuffling safe harbor should be under consideration by ARB.

3. ARB's EIM Analysis is Misleading

As noted above, the EIM Entities support the adoption of the proposed bridge solution as a way to satisfy ARB's concerns regarding emissions leakage in EIM as well as to allow sufficient time for the development of a more permanent and durable solution. That being said, the EIM Entities also believe that ARB's analysis that seeks to quantify EIM emissions leakage is misleading. Simply applying a default emission factor to all zero-emitting EIM transfers into California, as ARB does in Attachment F: Analysis of the Energy Imbalance Market and Mandatory Greenhouse Gas Reporting and Cap-and-Trade Regulations, is not an accurate reflection of emissions leakage actually occurring in the EIM, if leakage in the EIM is occurring at all.

ARB concludes that undercounting occurs when the greenhouse gas attribution is attached to a different specific resource than the resource in an EIM balancing authority for which actual electricity was dispatched and physically transferred to California. However, ARB staff's quantification seems to assume that this occurs in every instance where the EIM optimization identifies a zero-emitting resource as deemed delivered to California. This is over-simplified. ARB's analysis seems to assume that all EIM transfers into California are from emitting resources when in fact the current EIM footprint includes a diverse mix of generating resources, many of which are zero-emitting, that are co-optimized to meet demand across the entire EIM including California. If ARB was to use this flawed analysis, the results could be perceived as demonstrating that the EIM has somehow increased overall greenhouse gas emissions. However, it would be counterintuitive to conclude that the EIM has not produced significant environmental benefits when the data clearly shows that EIM is allowing solar oversupply to avoid curtailment by displacing thermal generation outside California and that EIM's wide-area load and resource diversity is both reducing overall ramping requirements and providing zero-emitting ramping resource alternatives. As noted above, the ISO calculates in the first three quarters of 2016 that EIM dispatch reduced GHG emissions in the footprint by 143,695 metric tons. While the EIM Entities understand accounting for these impacts is challenging, the EIM Entities request that ARB clarify these points in future analyses, and attempt to refine the model to better fit the known resource mix and actual dispatch of EIM.

C. CONCLUSION

The EIM Entities are grateful for the opportunity to submit these comments and appreciate ARB's consideration.