

June 14, 2022

Elliot Mainzer
President and Chief Executive Officer
California Independent System Operator
250 Outcropping Way
Folsom, California 95630

Dear Mr. Mainzer:

The California Air Resources Board (CARB) appreciates the opportunity to submit these comments on the Extended Day-Ahead Market (EDAM) Straw Proposal released by the California System Operator (CAISO) on April 28, 2022. We believe a clean, reliable, and affordable electricity grid is critical to the state's transition away from fossil fuel combustion across the economy. With that in mind and our history of collaboration, we are submitting these comments to ensure successful coordination continues. CARB supports CAISO's efforts to develop EDAM proposals that include an accounting framework for greenhouse gas (GHG) emissions that ensures the accurate accounting of California's GHG emissions as required by Assembly Bill (AB) 32, enables resources to opt-in to serve California load, and meets the GHG accounting needs of other states.

The EDAM Straw Proposal includes two design options to address GHG accounting: (1) CAISO's "Resource-Specific Approach" that builds on the GHG accounting framework in the Western Energy Imbalance Market (WEIM); and (2) a "Zonal Approach" that includes long- and short-term resource-specific pathways (Path 1 and Path 2, respectively) and a hurdle rate for resources that opt into serving load in GHG jurisdictions (specifically, California and Washington state) but that do not fall under a resource-specific pathway. CARB appreciates the time taken by CAISO and stakeholder in developing these approaches. CARB has some observations regarding these two approaches, described below.

It appears the Zonal Approach, as described in the Straw Proposal, may not meet CARB's legal and regulatory requirements. CARB has two areas of concern: (1) the point of regulation for imported electricity subject to the hurdle rate, and (2) the potential impact the Zonal Approach may have on emissions leakage and accurate accounting of California's GHG emissions. There are also areas of CAISO's Resource-Specific Approach that CARB would like to better understand, including its impact on California's GHG accounting and the extent to which it will minimize emissions leakage.

For the Zonal Approach, we understand the point of regulation has not yet been determined for reporting GHG emissions and assessing a Cap-and-Trade Program compliance obligation associated with electricity imported to California under the hurdle rate. However, the proposed design raises questions about whether the Zonal Approach can meet CARB's requirements. It is unclear whether the GHG reporting and Cap-and-Trade Program compliance requirements for hurdle rate transfers can be assigned to the entity responsible for delivering the electricity to California. CARB established the first jurisdictional deliverer (FJD) approach to regulating electricity imports at the outset of the Cap-and-Trade Program

after taking account of CARB's statutory requirements under AB 32, to rigorously and consistently account for all of California's GHG emissions including emissions from imported electricity, and under federal law.¹ The FJD approach was developed through extensive public process as part of Western Climate Initiative and CARB's rulemaking process. The approach is designed to ensure that in-state generators of electricity and electricity importers are treated the same way and to provide for the level of accuracy and verification necessary to ensure consistency in reporting across all sectors covered by the Cap-and-Trade Program. This source-based accounting method is also consistent with the Intergovernmental Panel on Climate Change accounting methods. The FJD approach also places the GHG reporting and compliance obligation requirements on the entity responsible for delivering the electricity to California, ensuring that electricity imports are regulated in a legally and administratively feasible way.

The GHG accounting framework for EDAM must support the FJD approach and meet CARB's legal and regulatory requirements. It is also essential that the entity responsible for reporting also holds the corresponding Cap-and-Trade Program compliance obligation. It is unclear if assigning hurdle rate transfers to the participating resource scheduling coordinators that are responsible for the transfers into California meets these requirements.

Additionally, the Zonal Approach may not adequately support the accurate accounting of California's GHG emissions and may risk emissions leakage. The resource-specific pathways in the Zonal Approach may be able to facilitate CARB's specified source reporting requirements. However, because importers of electricity from higher emission resources (i.e., resources with an emission rate higher than the emission rate used in the hurdle rate) will be incentivized to utilize the hurdle rate, the overall design of the Zonal Approach may negatively impact the accurate reporting of specified source emissions to California and result in emissions leakage. As a next step, CARB recommends that the expected impact on GHG accounting and any improvements related to leakage of the Zonal Approach over CAISO's Resource-Specific Approach, be clearly described, and demonstrated. If adopted, the Zonal Approach must support CARB's specified source reporting requirements and minimize emissions leakage so that the approach satisfies AB 32 requirements.

CARB is also concerned that the Zonal Approach may create unintended effects for similar resources that (1) fall under Path 1 requirements, (2) serve California under the hurdle rate, or (3) are located in California. As described above, the Zonal Approach may create incentives for entities that import electricity to California from some external resources to report at a lower GHG emissions rate, and therefore to be assessed a lower Cap-and-Trade Program compliance obligation, by using the hurdle rate instead of the higher resource-specific emissions rate. This option will not be available to California resources and may not be available to Path 1 resources, both of which will have compliance obligations calculated based on measured fuel consumption. The EDAM design should facilitate the comparable

¹ CAL. CODE REGS. tit. 17, §§ 95811(b), 95812(c)(2).

treatment of in-state resources and all resources that meet CARB's specified source reporting requirements.

After many years of working with CAISO and stakeholders, CARB understands the WEIM GHG design and appreciates CAISO's efforts to improve on that design in the Resource-Specific Approach, including by limiting deeming to California to instances where there are exports from other balancing areas. CARB would like to better understand to what extent the Resource-Specific Approach would minimize the emissions leakage relative to the design of the current WEIM and how the Resource-Specific Approach would interact with the rest of the EDAM design. This includes understanding the potential scale of future leakage in the EDAM, the robustness and role of the resource sufficiency evaluation in the GHG design and whether it will be binding, and how well the proposed design will reflect transmission constraints. In addition, CARB wants to ensure that there would be sufficient and accurate data available under the Resource-Specific Approach to support CARB's reporting and verification requirements. In particular, CARB wants to understand the potential impacts of netting imports and exports; what data will be available to support identifying the point of receipt into California, including for pseudo-tied resources; and what role, if any, e-tags may have in the Resource-Specific Approach.

CARB recognizes and supports that both approaches intend to recognize state geographical boundaries, facilitate the ability for multiple jurisdictions to track their GHGs, and track the transfer of electricity between jurisdictions. All these elements are critical for CARB's programs. CARB also appreciates CAISO and stakeholder's efforts to address GHG accounting issues in the EDAM and looks forward to continuing to work to develop a robust EDAM design that supports the accurate accounting of California's GHG emissions while ensuring the availability of clean, reliable, and affordable electricity.

Sincerely,



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