



November 3, 2023

VIA ELECTRONIC SUBMISSION

Attention: Mark Sippola
Chief, Climate Change Program Evaluation Branch
California Air Resources Board
1001 I St. #2828
Sacramento, CA 95814

**RE: Comments on California Air Resources Board, California Public Workshop:
Potential Amendments to the Cap-and-Trade Regulation**

The California Independent System Operator Corporation (ISO) submits these comments to provide suggestions following the October 5, 2023 workshop on potential amendments to the Cap-and-Trade regulation. The ISO appreciates the direction of CARB's rulemaking in response to the changes ISO has proposed in its Extended Day Ahead Markets filing and the opportunity to comment.¹

I. The ISO supports the updated Outstanding Emissions Calculation.

The ISO supports CARB's proposed update to the Outstanding Emissions Calculation. Underpinning this calculation is the counterfactual used in the ISO's market. As background, the ISO's counterfactual helps define surplus capacity. It does this by approximating how load outside of a greenhouse gas (GHG) area would be served without GHG transfers. This serves the purpose of supporting more accurate attribution and thus reducing the effect of potential secondary dispatch. In the case that a resource that is not surplus is attributed to a GHG regulation area (*i.e.*, attributed below the counterfactual), there is a greater chance of leakage as it could be backfilled by a higher emitting resource to serve native load.

It is an improvement to no longer consider surplus as leakage in the Outstanding Emissions Calculation. The CARB proposed calculation improves the current methodology because it

¹ The ISO's transmittal letter, attached to the EDAM tariff amendment filed with the Federal Energy Regulatory Commission (FERC) on August 22, 2023, provides a comprehensive description of the entire EDAM design. A copy of the filing is available in FERC Docket No. ER23-2686 and also on the ISO's website at: <http://www.caiso.com/Documents/Aug22-2023-DAME-EDAM-Tariff-Amendment-ER23-2686.pdf>



more precisely targets emissions from resources attributed below the counterfactual, which represent potential leakage. In contrast, the current approach starts with total emissions.

The ISO also appreciates that CARB established two equations to address leakage, one equation for entities in the WEIM only and another for entities that are in both EDAM and the WEIM. This accurately reflects that there is a different real time counterfactual depending in which market(s) an entity participates. For an entity only participating in the WEIM, the counterfactual will continue to reflect the hourly base schedule.² However, for entities that are in EDAM, the ISO will clear hourly schedules in the GHG reference pass based on submitted bids to create an optimized counterfactual.³

As GHG compliance obligations are based on what occurs in the real time market, in EDAM the real time counterfactual should be used to calculate the outstanding emissions calculation. For an entity that participates in EDAM, the real time counterfactual is the difference between the day-ahead market energy schedule and day-ahead market GHG award. This was selected because if the day-ahead energy award is the energy needed to serve the whole market and the day-ahead market GHG award is the energy needed to serve a GHG region, the difference between them is the energy needed to serve the non-GHG portion of the market. This approach aligns with the fact that the real-time market is performing its own optimization and determines the final attribution.

II. The ISO suggests committed capacity be excluded from the Outstanding Emissions Calculation.

In response to CARB's request for feedback on how to treat committed capacity in the Outstanding Emissions Calculation, the ISO recommends CARB exclude committed capacity from that calculation because the dispatch of committed capacity to serve California demand does not create the potential for secondary dispatch. Committed capacity in EDAM represents the megawatts (MW) of a contracted resource to serve California demand and are therefore not intended to serve native load in the BAA in which they are located. However, this capacity will still bid in to voluntarily make itself available to the GHG regulation area and will need to be economic in order to be attributed to California.

² A base schedule is a forward energy schedule from a WEIM non-participating resource, with hourly granularity, that is the baseline to measure deviations for settlement through the WEIM. Base Schedules include the hourly forecasts of load, hourly generation schedules, and hourly interchange schedules. These base schedules are determined and submitted by the WEIM entity.

³ In EDAM, all resources in an EDAM area will submit either economic bids or self-schedules into the market and there is no base scheduling.



One of the qualifying criteria to use a resource specific rate is to have a contract in place. To demonstrate there is a contract in place, scheduling coordinators will register committed capacity in the ISO's master file. Data on which resources are committed capacity, if they are flagged as such by EDAM entities, can be made available to CARB.

In EDAM, committed capacity external to the GHG regulation area will have a zero value in the GHG reference pass to signal that those MW are not being used to serve native load so that the capacity can be fully attributed to serve demand in a GHG regulation area, if economic. In addition, attribution of this supply to serve demand in the GHG regulation area will not be constrained by the GHG net export constraint.

III. The ISO supports full linkage.

The ISO appreciates the various approaches CARB outlined for how to address electricity imports from unlinked jurisdictions. To promote the most efficient reflection of costs in the market and thus the most efficient dispatch of resources, the ISO supports full linkage with other jurisdiction(s) that have a price on carbon emissions with the goal of ensuring carbon prices are appropriately reflected in the dispatch of units.

The ISO appreciates the opportunity to provide these suggestions and looks forward to continuing to work with the California Air Resources Board and other stakeholders in this effort to discuss potential amendments to the Cap-and-Trade regulation.

Sincerely,

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