

September 9, 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 comments on the Revised Extended Day-Ahead Market (EDAM) Straw Proposal released by the California Independent System Operator (CAISO) on August 16, 2022. As indicated in our letter on June 14, 2022, a clean, reliable, and affordable electricity grid is critical to the state's transition away from fossil fuel combustion across the economy, and CARB supports CAISO's efforts to develop an accounting framework for greenhouse gas (GHG) emissions in EDAM that meets CARB's legal and regulatory requirements. In effort to continue our ongoing coordination, we have several comments on the GHG accounting proposals in the Revised EDAM Straw Proposal (Revised Proposal).

CARB's understanding is that the EDAM GHG design is not seeking to reshape GHG accounting or GHG reduction policy objectives at the state or federal level, nor are they seeking to change state or federal laws. Rather, we understand this effort aims to ensure accurate accounting of GHG emission costs incurred by sellers of power, to reflect those costs in the least-cost dispatch, and to facilitate CARB's and other states' required GHG reporting. The Revised Proposal indicates that CAISO intends to adopt the Resource-Specific Approach at the outset of EDAM. Given this, CARB intends to focus solely on the Resource-Specific Approach going forward.

CARB is assessing the Resource-Specific Approach in the context of legal constraints and regulatory requirements. Under Assembly Bill (AB 32), CARB must account for all GHG emissions from the generation of electricity delivered to and consumed in California, whether that electricity is generated in-state or imported. The Regulation for Mandatory Reporting of GHG Emissions (MRR) establishes requirements for the accurate reporting GHG emissions and for third-party verification of reported data. Broadly, CARB is evaluating (1) whether the proposal meets AB 32 requirements and MRR reporting and accuracy requirements, (2) the robustness of the GHG reference run and export constraints, and (3) whether GHG attribution (deeming) would be a sufficient basis for specified source reporting under MRR. CARB must assess these issues considering California's emission reduction goals, the large amount of MWh expected to be transacted in EDAM, the need to implement consistent reporting requirements for all specified sources of imported electricity, and requirements under AB 32 to minimize emissions leakage.

CARB appreciates that the Revised Proposal contains additional information on how the Resource-Specific Approach may reduce leakage. However, as described in the Revised

Proposal, the information available today on how leakage may be minimized is limited; CAISO is only able to provide an approximate indication of the possible impacts of the proposed constraints. Given these limitations, and the large amount of MWh that is expected to be transacted in the EDAM, CARB must ensure that it has appropriate tools to calculate and address the remaining emissions leakage that is not addressed by the EDAM algorithm itself. CARB's understanding is that all EDAM transactions will be settled in the WEIM. As is our normal practice, CARB continues to monitor and evaluate the effectiveness of the existing mechanisms in the Cap-and-Trade Program related to addressing leakage in the context of the WEIM. Any changes to CARB's regulations will occur in a future rulemaking, which will be noticed publicly.

CARB appreciates the additional information in the Revised Proposal regarding what data will be made available to reporters and CARB under the Resource-Specific Approach. CARB must ensure that the data available to entities that must report pursuant to MRR can serve as the basis for enforceable compliance obligations under the Cap-and-Trade Program. Specifically, MRR requires that reporting entities have access to accurate data used to calculate their total emissions for electricity imported from outside California. Data made available from CAISO to EDAM participants for the purposes of emissions reporting to CARB, including the MWh quantities imported via EDAM and the source of those MWh for specified source reporting, must be made available to reporters, must be auditable by verifiers to MRR standards, and must meet MRR standards of accuracy, transparency, and verifiability. CARB looks forward to working with CAISO to ensure that these standards continue to be met.

The Revised Proposal includes two other approaches to GHG accounting in the EDAM: a "Zonal Approach" and the "Los Angeles Department of Water and Power (LADWP) Approach." CARB's assessment is that, as with the Resource-Specific Approach, these two approaches will also require changes to CARB's regulations. The full scope of the amendments required for the EDAM cannot be determined until there is a final proposal. However, both the Zonal Approach and the LADWP Approach appear to require changes to CARB's point of regulation for electricity imports, the First Jurisdictional Deliverer (FJD). As such, the requirements and concerns raised in our June 14 letter related to possible deviations from the FJD framework continue to apply. In particular, the possibility of a load-based point of regulation that would shift responsibility for imports from the FJD to in-state load-serving entities raises concerns for CARB regarding (1) how the carbon price signal can be acted on by the proposed regulated entities, (2) compatibility with the source-based point of regulation for other sectors in the Cap-and-Trade Program, and (3) compatibility with Intergovernmental Panel on Climate Change GHG accounting methods. CARB is also concerned that a load-based point of regulation may result in inconsistent treatment of different types of imported electricity transactions as well as inconsistent treatment between electricity importers and in-state generators. This is because a load-based point of regulation necessitates placing the responsibility for reporting imported electricity and associated GHG emissions on an entity other than the importer of that electricity, which may not provide the same level of accuracy and verification as the reporting for other imports and in-state generators. The Zonal Approach and LADWP Approach also raise feasibility and

implementation questions related to reporting and verification under MRR and compliance in the Cap-and-Trade Program. These may be significant hurdles. In addition, the potential impacts of these alternate proposals on emissions leakage and on the accuracy of California's GHG emissions reporting are unclear. CARB appreciates the ideas raised in both alternate approaches and are evaluating the Resource-Specific Approach with these ideas in mind.

CARB is committed to continuing to work with CAISO and stakeholders on an EDAM design that meets our legal and regulatory requirements while ensuring the availability of clean, reliable, and affordable electricity.

Sincerely,



Rajinder Sahota, Deputy Executive Officer, Climate Change and Research

cc: Matt Botill, Chief, Industrial Strategies Division
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