COMMENTS OF
ARIZONA ELECTRIC POWER COOPERATIVE, INC.
ON THE
PROPOSED AMENDMENTS
TO THE CALIFORNIA MANDATORY GREENHOUSE GAS REPORTING REGULATION

October 22, 2013

Arizona Electric Power Cooperative, Inc. (AEPCO) respectfully submits the following comments on the Sept. 4, 2013 proposed amendments to the California Air Resources Board (ARB) Mandatory Greenhouse Gas Reporting Regulation (MRR). Our comments are substantially the same as those we submitted in response to the informal draft proposed amendments, which ARB made available to the public on July 17, 2013. Those comments are reproduced below.

In brief, AEPCO supports ARB's attempt to clarify the ambiguity in the regulations as to how systems that import power to California must report. We are aware that ARB may be withdrawing the "system power" amendments in the proposed amendments. If ARB decides not to proceed with the system power amendments, AEPCO urges ARB to further clarify the ambiguities in its regulations over reporting of system power in future regulatory guidance. If ARB decides to retain the system power approach, AEPCO believes that further clarifications to the regulations may be needed, as described more fully in our comments on the July 17 draft proposed amendments (see below).

AEPCO appreciates the opportunity to comment on this important issue, and looks forward to working with ARB to continue improving the MRR during the current comment period.

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COMMENTS OF
ARIZONA ELECTRIC POWER COOPERATIVE, INC. (AEPCO)
ON THE
JULY 17, 2013 DRAFT AMENDMENTS
TO THE MANDATORY GREENHOUSE GAS REPORTING REGULATION (MRR)

Aug. 1, 2013

Arizona Electric Power Cooperative, Inc. (AEPCO) respectfully submits the following comments on the July 17, 2013 draft amendments to the California Air Resources Board (ARB) Mandatory Greenhouse Gas Reporting Regulation (MRR).[1]

AEPCO's Interest in the Draft Amendments

AEPCO is a not-for-profit generation & transmission cooperative based in Arizona. AEPCO owns or has contractual rights to a portfolio of electric generating resources that it operates as a system in order to meet the electric requirements of the distribution cooperatives that are its members and customers. In addition, AEPCO makes economy purchases of power in the wholesale market to optimize its portfolio. Because AEPCO delivers some power to California, AEPCO is classified as an "electricity importer" and is subject to the MRR, as well as the requirements of California's cap-and-trade program.

AEPCO Supports ARB's Proposal to Clarify the Treatment of System Power

As ARB recognized in its July 23rd webinar on draft amendments to the MRR,[2] it is standard practice for some utilities and generators in the West to e-tag power from multiple generation resources within their system as originating at a system hub rather than at the actual generating unit.

Unfortunately, the current MRR does not clearly account for this situation. Section 95111(a)(4) of the MRR states that electric power entities (EPEs) "must report all direct delivery of electricity as from a specified source for facilities or units in which they are a generation providing entity (GPE) or have a written power contract to procure electricity." The regulations provide that "[e]lectricity importers may claim a specified source when the electricity delivery meets any of the criteria for direct delivery of electricity defined in section 95102(a) . . . ."[3] By implication, all

[1] California ARB, Potential Amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions, Discussion Draft (July 17, 2013), http://www.arb.ca.gov/cc/reporting/ghg-rep/revision-2013/July-discussion-draft-MRR.pdf.
[2] Comments of Wade McCartney at ARB Webinar for Electric Power Entities on Potential Revisions to Section 95111 of Mandatory Reporting Regulation (July 23, 2013).
[3] MRR § 95111(g)(3) (2012).

electricity deliveries that do not meet the requirements for "direct delivery" must be claimed as "unspecified."[4]

However, the definition of "direct delivery of electricity" requires that the electricity be "scheduled for delivery from the specified source into a California balancing authority *via a continuous physical transmission path from the interconnection of the facility in the balancing authority in which the facility is located to a sink located in the state of California*."[5] Thus, system power that originates from multiple points in a single balancing authority and is then delivered to a trading hub for resale, would not meet the requirements for "direct delivery" because the e-tag would not show a "continuous physical transmission path from the interconnection of the [source] facility" to the sink. Rather, such power either would be tagged with the source designated as the hub or substation, or as "system power" with the first point of receipt (POR) identified as the trading hub. Consequently, there has been uncertainty among reporting entities as to whether imported system power that is tagged as originating at such hubs should be reported by the importer as "specified" or "unspecified" power.

AEPCO supports ARB's efforts to clarify this ambiguity in the current regulations. ARB believes that the proposed designation of "system power" in proposed new section 95111(b)(5) could allow reporting entities to more accurately report the source and greenhouse gas emission factor of their delivered electricity. AEPCO's understanding is that in the future, ARB would calculate and publish a system-wide emission factor for each system and would require reporting entities importing power from such systems to claim the import as a "specified source" import using the ARB system emission factor. This procedure would be analogous (though not identical) to the procedure ARB already uses for entities that import power from Asset Controlling Suppliers.

Additional Clarification is Needed

AEPCO supports ARB's proposal to clarify its regulations by explicitly recognizing system power as a specified source of power. However, AEPCO believes that further clarification is needed to ensure that entities may correctly report such power. AEPCO requests that ARB clarify the following issues:

1. *What information will ARB use to calculate the system emission factor?*

The draft amendments do not provide much detail as to how ARB will calculate the system emission factor. What publicly available data will ARB use to calculate the factor? Will ARB accept

[4] *See* MRR § 95102(a)(432) ("'specified source' means a facility or unit which is permitted to be claimed as the source of electricity delivered."); MRR § 95102(a)(472) ("'unspecified source' means a source of electricity that is not a specified source at the time of entry into the transaction to procure the electricity.").
[5] MRR § 95102(a)(125)(C) (emphasis added).

or require other data from reporting entities that may provide a more accurate indication of the greenhouse gas intensity of system power?

One area of particular concern for AEPCO is the potential for disparity in the greenhouse-gas intensity of a system's overall generation portfolio (including purchased power) and the greenhouse-gas intensity of the power the system *delivers* to California. ARB's current proposal does not appear to distinguish between system resources that are used to serve non-California customers and system resources that are used to serve California customers. For example, in AEPCO's case, AEPCO's non-California member-customers may have demand profiles that differ substantially from the electricity demand profile of AEPCO's main California member-customer. Moreover, certain of these member-customers purchase only a portion of their requirements from AEPCO, whereas others purchase all of their requirements from AEPCO. Therefore, AEPCO's system-wide resource mix is likely to differ somewhat from the resource mix associated with the electricity AEPCO actually imports to California.

Consequently, AEPCO suggests that ARB should clarify whether ARB will allow systems to report based on the greenhouse-gas intensity of the system resource mix associated with their *actual imports*, as opposed to the intensity of the overall system generation profile (much of which is not associated with California imports or electricity consumption and should therefore fall beyond the scope of the cap-and-trade program). AEPCO would welcome an opportunity to discuss this issue further with ARB staff in advance of the issuance of any proposed rule in this area.

2. *What evidence will ARB require for claims of "system power"?*

ARB should clarify the kind of evidence it will require reporting entities to provide in order to demonstrate that a delivery of system power has occurred. <u>In particular, ARB should clarify the specific form, if any, the e-tag must take.</u> The current regulations do not adequately explain this issue, and additional clarification would be helpful to reporting entities in complying with ARB's rules.

3. *How will the proposed "system power" clarification affect the other "specified source" rules?*

ARB should explain how the proposed clarification to allow for reporting of system power will interact with the reporting rules for specified sources. In particular, ARB should explain how ARB would treat deliveries from the same reporting entity that come from both specified individual generation sources and from system sources. In other words, would an entity reporting its deliveries on a "system" basis be permitted to separately report certain deliveries as "specified source" deliveries, assuming that the other requirements for reporting "direct delivery" from a specified source were met (*i.e.*, electricity purchased pursuant to a long-term contract that specifies delivery from a specific source; e-tag with continuous physical transmission path from source facility to sink)?

Consider a concrete example: Suppose First Deliverer A operates its generation resources as a system, and e-tags all deliveries to Customer A from a single system trading/transmission hub. Under the proposed clarification to the ARB reporting rules, First Deliverer A would, in theory, be required to claim the deliveries from the system hub as "system power." Suppose, however, that First Deliverer A signs a Power Purchase Agreement (PPA) with Wind Generator B for procurement of up to 10 MW of wind energy for redelivery to Customer A. Suppose further that First Deliverer A transmits and e-tags the power from this PPA such that the e-tag shows a continuous physical transmission path from the generating source to Customer A. Meanwhile, First Deliverer A continues to supply the remainder of Customer A's demand with system power. Therefore, a portion of the power imported into California comes from a specified source, and the remainder comes from system power. Under these circumstances, would the wind power procured from Wind Generator B under the new PPA, and e-tagged pursuant to the requirements for specified source deliveries, be reported separately from the "system power"? Or would the electricity produced and delivered pursuant to the PPA with Wind Generator B be included in the "system" emission profile calculated by ARB? ARB should clarify how it would address situations such as this in its clarification to the MRR system power rule.

4. *Will ARB be changing the definition of "direct delivery"?*

The current definition of "direct delivery," "continuous physical transmission path," and other aspects of the MRR reflect ARB's previous assumption that all electricity would be e-tagged from a single source, as opposed to a hub or system. Will ARB be amending these definitions as well to reflect this clarification?

5. *Will there be additional registration requirements for systems?*

ARB should clarify whether the addition of a system power option will mean that reporting entities must also register as systems, similar to the way they now register for specified sources.

6. *Will there be additional verification requirements for system power?*

ARB should explain the verification procedures for system power, including whether reporting entities will be required to retain any additional documents or adjust their verification procedures.

7. *Will the "system" clarification apply to electricity deliveries from 2013?*

In the absence of ARB's clarification of the reporting rules, EPEs have been required to continue to deliver electricity to their customers under existing contracts. Many of these deliveries would fall within the concept of system power as proposed in the draft amendments. Should these deliveries, which have already occurred, be reported as specified "system power" deliveries? If so, how should reporting entities calculate their 2013 emission factors for this power? If not, how should such deliveries be reported for emission year 2013?

8. *Why has ARB proposed to authorize system treatment only for imports above the default emission factor?*

The current draft excludes from the "system power" definition any imports of power that are below the default emission factor. What is the rationale for this restriction? If a system's average emissions are below the default emission factor (*e.g.*, due to high renewable, nuclear, or hydroelectric generation), should that system report all imports as unspecified? Such a result would effectively penalize lower-emitting systems by forcing them to report emissions that are higher than their actual emissions. If ARB concludes that systems with emission factors below the default factor must report their emissions as "unspecified," what is ARB's rationale for doing so?

Conclusions

AEPCO supports ARB's initiative to amend the MRR to clarify the treatment of system power. Such clarifications are necessary to resolve an ambiguity in the current regulations over the treatment of system power imported to California. However, AEPCO believes that further clarifications as described in these comments would assist EPEs to better comply with ARB's proposed system power reporting option.

Respectfully submitted,

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