



MEMORANDUM

TO: California Air Resources Board

FROM: Modesto Irrigation District
Redding Electric Utility
Turlock Irrigation District

SUBJECT: Comments on Imported Electricity

DATE: July 20, 2009

Introduction

On June 5, 2009, the California Air Resources Board (CARB) held a public meeting regarding the question of how to account for the affect of imported electricity in a California cap-and -trade program, in compliance with The California Global Warming Solutions Act of 2006 (AB32). Modesto Irrigation District (MID), Redding Electric Utility (REU) and Turlock Irrigation District (TID), collectively referred to herein as the "Utilities," submit the following comments regarding the subject of imported power.

General Statement

AB32 by its terms covers "emissions of greenhouse gases from the generation of electricity delivered to *and* consumed in California." (Health and Safety Code section 38505(m), emphasis added.) The State of California imports up to 25% of its annual power requirements. Since imported power is a significant resource to the State of California, it should be accounted for in a precise manner to ensure that allowances under a cap-and-trade program are distributed accurately and overall carbon reduction meets AB32 in the most economical manner possible. Any methodology to account for imported electricity must conform to the boundaries set by AB32, addressing that imported electricity consumed in California.

Essential reporting requirements adopted by CARB should align as closely as possible to requirements adopted by WCI and US EPA to avoid redundancy and added expense and other burdens to reporting entities.

Policy Considerations

Under the proposals presented at the June 5, 2009 workshop, there were a number of issues discussed. CARB asked for input from stakeholders in several areas:

Approaches for Compliance Obligation for Imported Electricity

The Utilities endorse the CEC/PUC Joint Decision recommendation of first deliverer obligation, but do not have a preference at this time in regards to the two First Jurisdictional Deliverer approaches under consideration by WCI. Under any approach, the point of compliance obligation should not have any significance on the market. An entity must not have the ability to influence, or take advantage for gain from, the method for point of compliance. State and federal agencies can lessen potential impacts on wholesale markets by making clear the obligations and taking into account the dynamics within the electrical system.

The Utilities believe that the flexibility and independence of the individual boundary approach more than offsets any advantage of the common boundary approach. The advantage of having more points of regulation as electricity travels across jurisdictions will enable each entity to correctly account for its respective emissions

Approaches to Assist in Identifying Obligated Entities

CARB sets out potential approaches to identifying obligated entities on slide 15 of its June 5 presentation. All three approaches will identify entities that would either report and/or participate in the reporting of imported electricity or other CARB activities such as cap-and-trade.

The Utilities believe that the CARB mandatory reporting requirements and NERC E-Tags will be especially helpful in identifying obligated entities. The electrical industry is a closed environment with all participants connected to each other, both physically and for accounting purposes.

Alternative Approaches to Track Sources of Imported Power

The Utilities believe that both of the alternative approaches to track sources of imported power identified by CARB, tracking using NERC E-tags, contracts and settlements data and tracking by emission attributes, should be available to track and verify all imported power. Increased options will help ensure accurate data in the most cost effective manner possible.

Questions for Stakeholders -

- *Which approach for including imports best lends itself to cap-and-trade?* The utilities endorse the CEC/PUC Joint Decision recommendation of first deliverer obligation. This approach is already being considered as part of the WCI program design.
- *Are there other options that staff should consider for identifying obligated entities, and what criteria should we consider in determining the best approach?* At this time the Utilities do not believe additional options are necessary. The current reporting requirements are

consistent with the understanding that all entities that generate or import electricity into the State of California are either already identified or would be identified by the reporting of other utilities or entities doing business within California.

- What criteria should CARB use in selecting a tracking method for imported power? The tracking method should be transparent as well as easily understood and utilized. Existing methods such as those already accepted for emission verification purposes are appropriate options. Tracking using NERC E-tags, contracts and settlements data and tracking by emission attributes can and should be used to track and verify all imported power.
- If CARB develops an attribute tracking system, would non-WCI generators participate? They should be allowed to participate. Based on market issues and dynamics the entities that have higher performing portfolios (less CO₂) would want to participate. It is in the interest of the State of California and the WCI to have an unlimited number of entities participate.

Emission Factors for Unspecified Power – The Utilities believe that the marginal source concept, Option 2, which captures regional variations, would be the most effective method for setting the emission factors for unspecified power. It is the fairest and most accurate of the options presented, notwithstanding that Option 1 may be the most practical and simplest to implement. The Utilities strongly oppose Option 3 which is neither consistent with nor fair to all market participants. A single number for all imported power tied to a typical coal unit would tag those who are clean with emissions that they are not responsible for and those who actually are high would not be forced to reduce emissions based on economics.

Questions for Stakeholders -

- Is there enough of a locational difference in the resource mix in non-WCI imported power to warrant multiple default emission factors? If so, how could “contract shuffling” be prevented? Yes, there is enough locational difference in resource mix in non-WCI imported power to warrant multiple default emission factors. Contract shuffling would be prevented by having either multiple regulation points or the individual boundary approach in place. Other entities having to pick up the tab for the emissions would eliminate the benefit to contract shuffling.
- Are there additional approaches to consider in setting emissions factors to calculate unspecified power? The factors should be correct and in the end represent the actual emissions of the compliance entities.
- Should a reporting threshold apply to imported power? If so, why? Yes, in order to provide a more equal treatment of imported electricity, a reporting threshold based on the emission reporting requirements of a generator located within the boundaries of California for reporting purposes should be applied to imported power.
- What criteria should be used in determining a default emission factor? The default emission factor(s) should be fair and equitable to all retail electricity providers. They should be simple to implement and administer. In order to permit electricity

providers to conduct their necessary long-term planning, a consistent methodology should be applied to determine the default emission factor(s) from year to year. Predictability and transparency will be important.

Conclusion

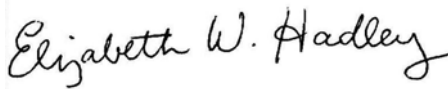
Compliance entities must be given every opportunity to comply with their actual allowance obligations under CARB's cap-and-trade program in a fair and equitable manner at the same time in the most economical fashion possible, and encourage CARB look at the issues.

The Utilities appreciate the opportunity to put forth the above proposal and would welcome the chance to work with CARB and a designated working group to develop these concepts further.

Respectfully submitted,



Joy Warren
MODESTO IRRIGATION
DISTRICT



Elizabeth Hadley
REDDING ELECTRIC UTILITY



Wes Monier
TURLOCK IRRIGATION
DISTRICT