

## **ARB Specified Source Electrical Imports Greenhouse Gas Reporting**

### **Frequently Asked Questions (FAQs)**

ARB has developed this Frequently Asked Questions (FAQ) document on issues that pertain to specified source imports. These FAQs respond to questions and comments from stakeholders and provide further clarification on specified source, short-term transactions, and asset controlling supplier (ACS) related requirements under the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (Cal. Code Regs., tit. 17, § 95100 *et seq.*) (MRR). This guidance document clarifies MRR requirements; it neither creates nor modifies any legal requirements, and cannot do so.

#### **1. Specified Source Questions**

- a) What criteria must be met for imported electricity to be reported as from a specified source?

If imported electricity meets specified source requirements, it must be reported as such. To report imported power as from a specified source, an electric power entity (EPE) must have a specified source power contract, the power must meet direct delivery requirements (generally through e-tag documentation), and RECs must be retired, if applicable. These requirements are described in section 95852(b)(3) of the Cap-and-Trade Regulation. Additional reporting requirements on aggregation, warranty, and measurement are set forth in section 95111(a)(4) of MRR.

- b) For imports made on behalf of a retail provider, do we need to report all of the details of the import (as if we were the importer) or do we only report the RECs that are associated with the imports?

Section 95111(c)(4) of MRR requires retail providers that report any imports or exports to also report electricity imported on their behalf to serve their load, and identify the importing first deliverers. In Workbook 1, retail providers must report all of the details of “on behalf of” imports (as if they were the importer), except that they would not select “yes” in the “Are you the first deliverer?” field. This applies to both specified and unspecified imports and to REC and non-REC based power.

- c) Can substitute power be provided by a specified source?

Yes. Substitute power can be provided by a specified source. However, it is generally the case that ancillary services for transmission are usually provided as unspecified power from within the host balancing authority area (BAA). Appropriate documentation, such as a specified source contract for ancillary services, would have to be provided to substantiate the specified source claim.

## 2. Seller Warranty

- a) What is the role of the seller warranty requirement in short-term transactions?

The seller warranty provisions in MRR are designed to correctly identify and report specified power transactions and prevent the resale of unspecified power as specified source power. Transactions that meet the seller warranty requirement are eligible to be claimed as a specified source, as long as the requirements of MRR are met. Therefore, a reporter cannot report electricity as specified power for transactions that do not meet the seller warranty requirements. The seller warranty requirements apply beginning with 2014 data reported in 2015, per section 95103(h)(8) of MRR.

- b) What is seller warranty, as it pertains to specified source claims?

Seller warranty pertains to a power contract provision or guarantee in which the seller agrees to provide power from a specified source to a buyer, such that it has not been previously transacted as unspecified power. Seller warranty provides for greater electricity market transparency and more accurate pricing when purchasing specified power.

- c) Is it possible to resell unspecified power as specified power?

While it is technically possible to resell unspecified power as specified source power, such a transaction would not meet the seller warranty requirements in section 95111(a)(4) of MRR, and therefore, such power should not be reported as specified under MRR. However, if it was reported as specified, and during the verification process it was determined to be unspecified, the specified power claim would need to be reclassified as an unspecified source transaction, which could result in an increased compliance obligation for the reporter.

## 3. Short-Term Transactions

- a) What are short-term and long-term transactions for electric power?

Under most power contract agreements, often referred to as enabling agreements, short-term transactions are transactions for “less than one week in duration,” for which written confirmations are not required between buyer and seller, and long-term transactions are for transactions for “one week or more in duration.” Unlike for short-term transactions, long-term transactions generally require the use of written confirmations.<sup>1</sup>

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<sup>1</sup>The Western States Power Pool (WSPP) standard contract agreements are available here: [http://www.wspp.org/current\\_effective\\_agreement.php](http://www.wspp.org/current_effective_agreement.php)

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- b) Are there any standard contracts that could be used to facilitate short-term transactions that would meet ARB specified source requirements?

Most short-term power trading is conducted under the umbrella of one of the standard power contract enabling agreements, e.g., the Western Systems Power Pool (WSPP), Edison Electric Institute (EEI), or International Swaps and Derivatives Association (ISDA). If operating under a standard agreement, power traders are bound by the standard provisions of the agreements under which they may verbally transact. Short-term power markets have evolved to allow for a high level of transaction precision and efficiency for the standard confirmation provisions, including price, quantity, and delivery point), which can be easily confirmed verbally.<sup>2</sup> Additionally, to facilitate reporting and verification under MRR, WSPP members approved an optional specified source confirmation in December 2013, referred to as Exhibit C-SS, which can be utilized in both short-term and long-term transactions.<sup>3</sup>

- c) How will ARB determine whether a short-term transaction is from a specified source?

Short-term power transactions can be verbally transacted via phone. Although an entire short-term transaction can be accomplished via voice record, both buyer and seller may have very different opinions about what product was actually transacted, i.e. whether specified or unspecified power was transacted. Thus, not all short-term transactions may result in an explicit acknowledgement of the type of power transacted. In this scenario the voice tape may be used to indicate that the buyer agreed to a specified source product prior to execution of the transaction, and thereby establish evidence of seller warranty, which can then be used as evidence during the verification process.

A specified source claim must include (1) a contract, (2) direct delivery, and (3) a specified source seller warranty throughout the market path.

- Contract requirement: A reporter claiming transacted electricity as specified needs to show evidence of a contract, which can include one of the standard enabling agreements.
- Direct delivery requirement: A reporter claiming transacted electricity as specified needs to demonstrate direct delivery, likely by providing the standard e-tag documentation, which is the most common, or by demonstrating another form of direct delivery per section 95102(a)(123).

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<sup>2</sup> Under standard enabling agreements, verbal can mean both verbal and electronic (Instant Messenger).

<sup>3</sup> The WSPP specified source confirmation can be found here:

[www.wspp.org/filestorage/wspp\\_exhibit\\_c\\_ss\\_specified\\_source\\_watermark\\_123113.doc](http://www.wspp.org/filestorage/wspp_exhibit_c_ss_specified_source_watermark_123113.doc).

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- Seller warranty requirement: A reporter claiming the transacted electricity as specified needs to provide evidence of a specified power purchase seller warranty at the time the transaction is executed. Reporters may refer to Table 1 to provide guidance on situations in which this requirement may be satisfied (examples in Table 1 are not exclusive).

<b>Table 1 – Seller Warranty Guidance For Short-Term Transactions</b>	
<b>DID REPORTER ESTABLISH EVIDENCE OF SELLER WARRANTY?</b>	
<b>SPECIFIED SOURCE CLAIM</b>	<b>Yes.</b> At a minimum, voice tape indicates buyer agreed to buy specified power. Supplemental documentation, such as trade logs and/or aggregate daily, weekly, or monthly confirmations can strengthen the claim.
<b>MUST BE CLAIMED AS UNSPECIFIED</b>	<b>No, if:</b>  Voice tape indicates buyer agreed to buy unspecified power.  -or-  Voice tape has no indication buyer agreed to transact specified source power, including ACS power, prior to execution.  -or-  Buyer cannot demonstrate that the source was specified prior to contract transaction execution.
Note: This table assumes valid contract rights, and direct delivery with appropriate source information. See Table 2 for BPA transactions.	

- d) What happens if a reported specified source claim is denied in the MRR verification process?

In the event that a reported specified source claim is denied during the verification process, the reporter would be required to reclassify the transaction as unspecified in the emissions data report. This could result in an increased compliance obligation on the part of the first deliverer (importer).

Please see the responses to the specified source questions in Section 1 of this guidance document for more information on the types of evidence that may be submitted during the verification process to substantiate specified source claims.

#### 4. Asset Controlling Supplier (ACS) Questions

- a) What is an Asset Controlling Supplier (ACS)?

An asset-controlling supplier (ACS) is a specific type of EPE approved and registered by ARB. An ACS owns or operates interconnected electricity generating facilities or serves as an exclusive marketer for these facilities even though it does not own them. Each ACS is assigned a system emission factor by ARB for the wholesale electricity procured from its system and imported into California. Once approved by ARB, ACS power procured from an ACS's system is considered specified source power.

- b) What is the process for an entity to be approved as Asset Controlling Supplier?

MRR includes provisions for an EPE to apply to become an ACS in section 95111(f). By May 1, EPEs seeking approval must submit an ACS application, which is posted here: <http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep-power/ghg-rep-power.htm>.

By June 1, the EPE must file a system emission factor calculation using Workbook 4, as posted on the California Electronic Greenhouse Gas Reporting Tool (Cal e-GGRT) Reporting Form Instructions webpage, found here:

<http://www.ccdsupport.com/confluence/display/calhelp/Reporting+Form+Instructions>.

After the system emission factor calculation has been third-party verified and ARB approved the EPE as an ACS, ARB will post an ACS system emission factor by year-end for use during the following calendar year.

- c) Which entities are approved as an ACS under MRR?

For data year 2014, ARB has approved two ACSs: Bonneville Power Administration (BPA or Bonneville) and Powerex. BPA is a federal agency which markets electric power from all of the federally owned hydroelectric projects in the Pacific Northwest. Powerex is the wholly-owned electricity marketing subsidiary of BC Hydro and is responsible for marketing BC Hydro's surplus electricity in the western United States. Please see ARB's Mandatory GHG Reporting – Asset Controlling Supplier webpage, found at the following address for more details on the approved ACS providers:

<http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep-power/acs-power.htm>

- d) What evidence does an importer need to provide for ARB to recognize a short-term purchase from BPA as specified source ACS power with the BPA ACS emission factor?

Reporters can use the BPA ACS emission factor for electricity imported from BPA, if the reporter can meet the seller warranty requirements for short-term transactions.

Reporters can use Table 2 to determine if they meet the seller warranty requirements and have sufficient evidence to claim the BPA ACS emission factor for short-term transactions.

<b>Table 2 – Seller Warranty Guidance</b>			
<b>Short-Term Transactions for BPA Power</b>			
	<b>BUYER PURCHASE SCENARIOS</b>		
	<b>Transacted Directly with BPA</b>	<b>Transacted with Intermediate Seller</b>	<b>Unspecified Power Via Exchange or Broker*</b>
<b>SPECIFIED SOURCE CLAIM AT THE BPA ACS EMISSION RATE</b>	Regardless of contracted amount, tags that show source as “BPA Power” or “BPA Slice” and were transacted directly with BPA must be claimed as specified	See Table 1 guidance for seller warranty	A specified source claim is not allowed, because the transacted power was by definition unspecified, as the source was unknown prior to contract execution
<b>MUST BE CLAIMED AS UNSPECIFIED</b>	Path out power received from BPA via e-tag (does not list BPA Power” or “BPA Slice” as source on e-tag must be claimed as unspecified	See Table 1 guidance for seller warranty	Must be claimed as unspecified, because buyer did not know source prior to contract execution
<p>Note: This table assumes valid contract rights, and showing direct delivery with appropriate source information. *Power can be transacted via broker as specified, and ARB regulations and guidance in no way prohibit brokered specified source sales, so long as all applicable specified source requirements are met.</p>			

e) How do Powerex and BPA differ as Asset Controlling Suppliers?

Bonneville, or BPA, and Powerex are distinct entities with different capabilities and responsibilities, as described here. Bonneville only sells power from one source – its overall system portfolio. According to Bonneville, under its federal mandate, it cannot sell power from individual specified sources, nor can it self-market unspecified power, whereas Powerex can do both. Powerex can sell power from multiple sources, including specified, unspecified, or ACS power.

Although Bonneville considers all of its sales as sourced from the BPA system, ARB differentiates between Bonneville sales from two sources based on e-tags: BPA ACS power and path out power. Bonneville tags power from either BPA Power or BPA Slice (both of which are ACS power), or from non-BPA power sources (that were originally

procured for use by the BPA system). Bonneville sales tagged from a non-BPA source, but sold by Bonneville as BPA power are referred to as path outs, or path out power. Thus, buyers of BPA power may end up receiving e-tags sourced as BPA Power, BPA Slice, or as path out power. Transactions tagged as BPA path out power, where BPA is the seller but the source is not the BPA ACS system, are not eligible to be claimed as specified source power, and therefore may not use the ACS emission factor for BPA.

For reporting 2013 data in 2014, a specified source contract is not required to claim ACS power, per section 95103(h)(8); therefore, if an importer has an e-tag with an ACS source identified (BPA ACS or Powerex ACS), and all other pertinent specified power reporting requirements are met, the importer must claim the power as ACS specified power. For calendar year 2014 reported in 2015 and beyond, a specified source contract is also required to claim ACS power, including from BPA. In contrast, path out power tags received as part of a BPA purchase must be claimed as unspecified for calendar year 2013 and beyond. Entities that transact directly with BPA must claim specified ACS power when tagged with the source as either “BPA Power” or “BPA Slice.”

- f) What power purchases made by an ACS will be included in its system emission factor calculation, and will thus be considered part of its ACS system footprint?

The ACS system emission factor calculation includes components for purchased electricity from specified and unspecified sources. Power purchases that sink to serve load or to maintain reliability of the ACS’s system are included in the system emission factor calculation. Purchases intended to serve load or maintain system reliability that were sold as path outs will not be included in the system emission factor calculation.

- g) When buying BPA Slice power, what documentation should be made available to a verifier to meet the seller warranty requirements?

For short-term and long-term transactions, EPEs must comply with the specified source requirements in MRR. In general, the importer must establish evidence of seller warranty for the transaction, meaning that the seller has specified source rights to the BPA Slice power. For instance, for a transaction between an entity that has specified source rights to BPA Slice power and an entity that imports the power to California, evidence of seller warranty can be established through the following:

1. A confirmation between the BPA Slice holder and the importer. For long-term transactions, the reporter could provide a written confirmation between the BPA Slice holder and counterparty for each trade, denoting a sale of specified source power sourced as BPA slice. For short-term transactions, reporters

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should refer to the response to the Question c) in Section 3 of this FAQ document.

2. A contract between the BPA Slice holder and BPA, exchanged initially between counterparties.
  - h) Would a transaction using the WSPP contract (Schedule C) qualify as having a contract for specific source or ACS imports?

Yes. A transaction using the WSPP contract (Schedule C) would qualify as having a contract for specified source or ACS imports. Acceptable forms of a specified contract may include, but are not limited to, modified versions of either the Western Systems Power Pool (WSPP) Agreement Schedule B (Unit Commitment Service) or Schedule C (Firm Capacity/Energy Sale or Exchange Service) that specify the power is from the ACS system. Other contract forms that specify the source (e.g., a particular facility, unit, or ACS system) at the time of entry into the contract are also acceptable. A contract for a source of electricity that is not a specified source at the time of entry into the transaction to procure the electricity is unacceptable for the purposes of reporting a specified import.

More information can be found in the Asset Controlling Supplier System Emission Factors document, available here: [http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep-power/ACS\\_factors\\_2012-2013.pdf](http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep-power/ACS_factors_2012-2013.pdf), and on the ACS webpage found here: <http://www.arb.ca.gov/cc/reporting/ghg-rep/ghg-rep-power/acs-power.htm>.