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VIA ELECTRONIC SUBMISSOIN

California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: Revisions to the California Mandatory Greenhouse Gas Reporting Regulation

Arizona Public Service Company (“APS”) is a wholly-owned subsidiary of Pinnacle West Capital Corporation and is engaged in the business of generating, transmitting, and distributing electricity in eleven of Arizona’s fifteen counties. APS serves more than one million retail electric customers in Arizona and participates in the wholesale energy market. APS purchases from and sells energy to the California Independent System Operator (“CAISO”). APS does not own generation or serve retail customers within the state of California.

APS appreciates the opportunity to submit comments to both the May 30th Public Workshop regarding the General Overview of Proposed Changes Workshop to Discuss Revisions to Mandatory Reporting Regulation and the June 19th Webinar regarding Electric Power Entities Discussion of Revisions to the Mandatory Reporting Requirements. APS recognizes the sizeable challenges that face the California Air Resources Board (“CARB”) as it orchestrates the development of the western region’s first carbon cap-and-trade program. To that extent, APS wants to ensure that the changes APS proposes compliment and align both APSs’ operational objectives and the 20 objectives that CARB outlined in its Final Supplement to the Assembly Bill 32 (“AB 32”) Scoping Plan Functional Equivalent Document (“FED”).

The FED objectives that APS believes would be most at risk without modifications to the Mandatory Reporting Requirements (“MRR”) are as follows:

- Objective #4: Design an enforceable, amendable program
- Objective #14: Achieve real emission reductions in market-based strategies
- Objective #5: Ensure emissions reductions

OBJECTIVE #4: Design an enforceable, amendable problem - to design a program that is enforceable and that is capable of being monitored and verified

PROBLEM: To the extent that CARB has chosen to place the compliance obligation upon electricity importers that sell to the CAISO, CARB is overreaching its jurisdictional boundaries by requiring carbon obligations on entities that are not serving load within California.

DISCUSSION: For example, APS is awarded a day-ahead sale to CAISO for 100 MW of firm power. On the e-Tag, APS is listed as the Purchasing-Selling Entity (“PSE”) on the import path and, under the current rules, incurs carbon obligations for the sale. CAISO then sells this power to Party B for the same time interval. Party B uses this energy for load service in Arizona, thus essentially creating a blind wheel-thru. No load was served in California; however, APS still incurred carbon obligations. Requiring APS to report emissions and purchase an associated carbon allowance for energy that serves load in Arizona neither meets CARB’s objectives of ensuring real emissions reductions for Californians nor is a requirement that is enforceable by CARB.

Requiring qualified exports to have 1) the same importer and 2) occur within the same hour as an import will result in power that is neither produced nor consumed in the state of California, but still has a compliance obligation. The current rules expand the reach of CARB’s authority beyond California’s obligation to implement AB 32 by requiring carbon obligations for load service outside the State of California.

POTENTIAL SOLUTIONS: APS proposes the following solutions to address the aforementioned concern, maintain the objectives of AB 32, and ensure enforceability of CARB’s rules:

- 1) CARB can assign the carbon obligations to CAISO for purchases that are sourced outside the State of California. For this approach to accurately represent the actual load service in the State of California, CARB would need to allow CAISO to net their carbon obligations from purchases sourced outside the State of California against sales that sink outside the State of California. CAISO is the only entity that can identify sources and loads outside the State of California because it provides the transmission service for energy it purchases and sells through its current bid and award process. CARB would need to direct CAISO to modify its tariff to extend its financial settlements to include costs for carbon obligations. This process is simply an extension of the current CAISO settlements process. Finally, CARB would need to modify its definition of an electric importer to exclude sales to CAISO.
- 2) As an alternative, CARB can modify its rules to allow the netting of purchases from CAISO against sales to CAISO when determining annual carbon obligations. As discussed *supra*, many transactions through CAISO incur carbon obligations for load service outside the State of California, which does not meet the objectives of AB 32 or benefit the purchaser of energy. APS proposes that CARB allow the out-of-state purchaser to receive the benefit of the incurred

carbon obligation. This would more accurately reflect the actual imports during the year. Annual netting is consistent with the AB 32's goals of reducing California's annual greenhouse gas emissions to 1990 levels. Additionally, allowing purchasers to receive the benefit of the power with the already incurred carbon cost provides additional value to the purchase bids. CARB could address concerns of resource shuffling by requiring that carbon obligations be netted in order of lowest carbon emissions.

OBJECTIVE #14: Achieve real emission reductions in market-based strategies – to ensure that greenhouse gas (“GHG”) emission reductions achieved through any market-based compliance mechanisms are real, permanent, quantifiable, verifiable and enforceable by the Board

PROBLEM: Requiring importers to report GHG emissions by specified facilities or units instead of by allowing use of the default emissions factor may result in lower-than-actual emissions reported. Furthermore, because marketers will nearly always import at the default emissions rate, any reported emissions at rates higher than the default are also unlikely. Therefore lower-than-actual emissions reported vs. produced are likely to occur via two different scenarios:

- 1) Paper tracking, accounting, and reporting of emissions that does not represent the reality of incremental emissions actually produced and could result in allegations of resource shuffling, or
- 2) Intentional resource shuffling.

DISCUSSION: Section 95111(a)(2) Delivered Electricity states:

“The electric power entity must report imported, exported, and wheeled electricity in MWh disaggregated by first point of receipt or final point of delivery, as applicable, and must also separately report imported and exported electricity from unspecified sources and from each specified source. Substitute electricity defined pursuant to section 95102(a) must be separately reported for each specified source, as applicable. First points of receipt (POR) and final points of delivery (POD) must be reported using the standardized code used in NERC e-Tags, as well as the full name of the POR/POD.”

Allowing importers to specify a source of imported electricity linked to a sale that is an actual representation of reality when the power is generated from multiple sources that the entity controls presents two problems:

- 1) First, the path of least resistance for the importer will be to use the source listed on the e-Tag. This source may not represent the generation sources that were incrementally increased to generate the power for the sale. Furthermore, as Palo Verde Nuclear Generating Station (“PVNGS”) is a major hub for sales, many

importers would list it as the source. PVNGS has zero emissions and thus, zero carbon obligations. Reporting in such a way would be consistent with the regulations as currently written. However, CARB has stated in previous public workshops, that reported specified sales from PVNGS would be identified as “cherry picking,” which is defined as shuffling from an unspecified emission factor to a lower emission factor or “facility swapping,” which is defined as shuffling reported emissions from a high emitting facility to a lower emitting facility.

- 2) Second, imposing an obligation on importers to specify a source that reflects reality for the given transaction would create an administrative burden large enough that the entities would likely choose not to import electricity into California and instead shuffle sales through a marketer that can be granted the default emissions rate. This option would result in reported emissions at the default rate.

Therefore, the likely outcome in the scenarios outlined above is that emissions reported will be lower than actual production and may even be lower than the default emission rate.

As an alternative, CARB has given importers in the aforementioned scenario the opportunity to apply to become an asset controlling supplier. If an importer were to choose to apply to become an asset controlling supplier, it will then be assigned a supplier-specific identification number and specified source emission factor for the wholesale electricity procured from its system and imported into California. Additionally, entities that import power that is originally sourced from an asset controlling supplier would need to specify these sales and would be obligated to utilize the asset controlling supplier’s rate in its obligation calculations.

Furthermore, entities that qualify for the asset controlling supplier designation and apply may be given a specified source emission factor that is higher than the default emissions rate. When this occurs, this power is at a disadvantage to sources of power that receive the default emissions rate, such as that which is imported on a bulk power contract from a marketer, despite the very real potential for the power that the marketer is importing actually having been generated from the very same sources as the power imported by the asset controlling supplier. A likely result is that importers would sell through marketers in order to be given the default emissions rate. This means that, again, reported emissions would be less than actual and the default rate would be used.

POTENTIAL SOLUTIONS: Modify Section 95111(a) (5) to include the option for asset-controlling suppliers to choose to report delivered electricity at the default emissions rate or at its specified source emission factor. Using a default rate would eliminate several of CARB’s resource shuffling concerns and would create a more consistent approach to

MRR emissions calculations, which would more accurately account for real and actual emissions related to electricity generation.

OBJECTIVE #5: Ensure emissions reductions – to pursue emissions reductions that are real, permanent, quantifiable, verifiable and enforceable

PROBLEM: In order to pursue emissions reductions that are real, permanent, quantifiable, verifiable and enforceable, electric power entities must be willing and able to participate in the program. Widespread concern related to the legality of a resource shuffling attestation has been expressed in numerous forums, including the May 4th Public Meeting to Discuss Compliance Requirements for First Deliverers of Electricity.

DISCUSSION: CARB has indicated that electric power entities will be required to attest that it does not engage in resource shuffling. The specific content of such an attestation has not been made available, nor has CARB issued a clear definition of resource shuffling that will allow an electric power entity to determine whether it will be able to submit the kind of attestation being proposed.

POTENTIAL SOLUTIONS: APS proposes that CARB more clearly define resource shuffling and utilize illustrative examples that are relevant to electric power entities in its definitions. APS additionally requests that CARB further specify the content of proposed attestation so that participants may fairly evaluate their ability to comply based on a clearer definition of resource shuffling. APS also proposes that CARB provides clarity surrounding when and how entities that operate multiple generating resources are to specify sources of generation for their sales to the CA ISO. Finally, APS suggests more clarity about how marketers are to report emissions that they purchase from asset controlling suppliers and imported into California.

CONCLUSION

APS respectfully requests CARB to (1) either modify its definition of an electric importer to exclude sales to CAISO or modify its rules to allow the netting of purchases from CAISO against sales to CAISO when determining annual carbon obligations; (2) modify its data requirements and calculation methods such that imported electricity can have the option to be reported and calculated using the default emissions rate; and (3) more clearly define resource shuffling and specify the content of the related attestation based on that definition, more clearly identify how and when specified sources are to be designated and more clearly delineate how and when marketers are to utilize asset controlling suppliers' specific source emission factor.