Comments of the Western Power Trading Forum to the California Air Resources Board on the Proposed Compliance Plan for the Federal Clean Power Plan

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The Western Power Trading Forum[1] (WPTF) welcomes the opportunity to provide input to the California Air Resources Board (CARB) on its proposed California Compliance Plan ("California Plan" or "Plan"), as required under the Federal Clean Power Plan (CPP). The proposed California Plan offers both an explanation of how the Plan would work for the benefit of California stakeholders, and the basis for demonstration to the Environmental Protection Agency (EPA) complies with requirements of Section 60.5745 of the Code of Federal Regulations (CFR).

WPTF agrees with the basic framework set forth in the California Plan. However, we continue to believe – as we have stated in earlier comments – that CARB is missing an opportunity to design its program to be trading-ready from the outset.[2] As we have indicated in previous comments, inclusion of additional plan elements now would facilitate California's linkages with other jurisdictions, when such linkages are approved by the Governor – without the need to get re-approval of the California Plan by the EPA.[3]

We believe that the additional elements needed to make California's compliance plan trading-ready are minor and should not require significant additional effort by CARB staff, nor changes to the overall cap and trade program architecture. These are:

- A statement in the plan submittal to EPA of California's intention to be trading-ready
- Indication of how the Compliance Instrument Tracking System Service (CITSS) would handle linkage with other CPP programs
- Demonstration in the California Plan that the state's mass-based goals will be achieved if linked with other CPP programs
- Consideration of the net allowance export/import adjustment in State Reports to EPA and the backstop trigger
- Modification of the Backstop Design to accommodate potential CPP linkages

These elements are discussed in more detail below.

Statement of Intention to be Trading-Ready

The CPP provides that states may elect to allow trading with other CPP states that meet EPA requirements for inter-state trading. Such a 'trading-ready' approach avoids the need for formal multi-state CPP compliance plans to engage in trading.

Because linkage of California's program to that of other CPP states will require approval of the Governor pursuant to the requirements of SB 1018, CARB cannot elect to link with other states in its CPP plan submission. However, CARB can and should indicate California's interest in being deemed trading-ready, so that EPA evaluates as part of the plan approval process, whether the California Plan meets requirements for trading. This would preserve California's ability to

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[1] WPTF is a diverse organization comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West. WPTF has over 80 members participating in power markets within California and elsewhere across the United States.

[2] https://www.arb.ca.gov/lists/com-attach/40-mrr-cpp-ct-amend-ws-U2BXfFRnUzlQewU0.pdf

[3] Under California's Senate Bill 1018, enacted in June of 2012, the explicit approval of California's governor is required before any linkage with jurisdictions outside California can take effect, which the governor can grant only if certain conditions specified in the law are met.

implement CPP linkages in the future once other state plans are approved, and to activate linkages at such time they are approved by the Governor.

We therefore recommend that CARB include a clear statement in the California Plan of California's intention to form linkages with other state CPP programs and establish in the Plan its readiness for trading with other jurisdictions, so that it will be ready to implement linkages when the Governor grants approvals for them.

CITSS

The proposed amendments to cap and trade linkage provisions in section 9544 would result in three different linkage models:

- full bilateral linkage (e.g. jurisdictions participating in the Western Climate Initiative),
- a one way "retirement-only limited linkage" for use in California's program of compliance instruments issued by other jurisdictions; and
- a one-way "retirement-only" agreement that would allow for use of California-issued allowances in another jurisdiction's program.

In combination, the two new one-way linkages appear to provide a mechanism for California's cap and trade program to be linked with allowance trading programs in other CPP states. In order for the California Plan to be considered 'trading-ready', it needs to provide an explanation as to how the CITSS system would interact with tracking systems in other CPP states to which it may link, and how any transfers of allowances between California and linked CPP states would be accounted for in CITSS.

CARB has already included information on CITTS in the California Plan, as is required for states that pursue a mass based trading system. However, CARB has not provided information on how CITTS would provide for transfer of allowances to or from other allowance tracking systems. CARB's explanation is "These requirements only apply if California's plan is linked to other state and federal CPP plans, which is not being proposed at this time. CITSS has the functionality to address such linkages if this becomes necessary in the future."[4]

Given the new provisions for one-way linkages in the proposed cap and trade amendment, and CARB's assessment that CITSS already has the functionality to handle transfers of allowances to or from other CPP states, WPTF urges CARB to strike this statement and instead include an explanation of how CITSS would handle CPP linkages if and when approved by the Governor pursuant to SB 1018.

Demonstration in state plan submission that the state's mass-based goal will be achieved considering the emission allowance links with other programs[5]

Because the California Plan would be a state measures approach, it must provide analysis to demonstrate to EPA – additional to that which is required under an emissions standard approach – that affected EGUs will collectively meet the state's CPP emission goals. This demonstration is contained in Chapter 5 of the California Plan. However, in order to be considered trading-ready the analysis must also address the transfer of allowances to and from other states.

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[4] Proposed CPP Compliance Plan at 58

[5] CPP preamble page 64893

The California Plan concludes that even without modeling of the economy wide cap or the increase in the renewable portfolio standard targets, EGU emissions levels in California will be far lower than CPP glide path targets. Since this conclusion is independent of allowance prices (i.e. allowance prices are not driving EGU emission reductions), any linkage to other CPP programs should not undermine achievement of the CPP targets. And because allowance prices in CPP states are expected to be lower than in California's program (as shown in Chapter 5, table 8), linkage of California's program in likely to result in a net import of allowances from other states – which would result in an increase in the state's allowable emissions under the CPP (although not in allowable emissions under state law).

WPTF therefore recommends that CARB expand the demonstration of compliance in Chapter 5 to provide this explanation so that the California Plan can be approved by EPA as trading-ready should California later elect to trade with similarly-stringent states in order to promote cost-effective emissions reductions. Given the timeframe of the CPP – ongoing from 2022 – seeking maximum future flexibility while ensuring emissions performance seems reasonable.

Consideration of the net allowance export/import adjustment in State Reports to EPA and the backstop trigger

Section 4.3.7 of the California Plan states that "ARB will provide U.S.A EPA with a full account of affected EGU emissions and compliance as of July of the year following each compliance period, including – critically – information of whether the backstop has been triggered." Because the California Plan is a state measures approach, CARB must compare its total EGU emissions to the CPP glide path targets and corresponding backstop triggers.

If California links its program to that of other CPP states, the comparison of total EGU emissions to the CPP glide path target would need to adjust the total reported EGU emissions by the "net allowance export/import" defined in section 60.55580 of the CPP. Similarly, the backstop trigger would need to include consideration of the effect of net allowance export/import adjustment on aggregated EGU emissions.

WPTF therefore recommends that CARB modify the California Pan to specifically state that California's compliance reporting will include any net allowance import/export adjustments resulting from potential future program linkages in the state compliance reports and in the backstop trigger itself.

Modification of the Backstop Design to accommodate potential CPP linkages

WPTF considers the California Plan's proposed backstop design to be workable in the context of the broader, multi-sector trading program. However, modifications to the design are needed to enable the backstop to work if California's program is linked to other CPP trading programs in the future.

If California cap and trade program is linked to of other CPP programs, then transfer of allowances between California and CPP states must be accounted for through the allowance export/import adjustment. Because California would be operating as a state measures program, California's ongoing compliance with the CPP would be demonstrated by comparing glide path targets to aggregated EGU emissions, as adjusted by the export/ import adjustment.

If the backstop is then triggered, then while the backstop is in effect, California's compliance would be demonstrated through individual EGU's retirement of EGU-only CPP allowances – not by comparison of aggregated EGU emissions to the glide path targets. In effect, California's program would operate as an emission standard type program while the backstop is in place. The net allowance import/export adjustment would therefore not be applicable for tracking transfers during the backstop period. Instead, a mechanism would be needed to adjust the size of the CPP allowance pool to reflect transfers of allowances to and from other CPP states:

- Transfer of a California allowance by a California EGU to an EGU in another CPP state will reduce the quantity of allowances available in the overall cap and trade program, but will not reduce the quantity of CPP allowances available to California EGUs. CARB should therefore include in the California Plan a requirement that the transfer of allowances to a CPP state requires retirement of the equivalent quantity of CPP allowances by the transferring EGU.
- Similarly, acquisition of allowances from an EGU in another CPP state would result in additional compliance instruments for the EGU to comply with the broad program rules (thus freeing up allowances for use by other entities in the program), but would not increase the quantity of CPP allowances available for backstop compliance. CARB should therefore include in the California Plan that it will issue a corresponding CPP allowance for each allowance acquired by an EGU from another CPP state.