Golden State Power Cooperative
The Power of Cooperatives
164 W. Loyalton Ave., Portola, California 96122 • 530.927.7856 • www.gspower.org

January 19, 2017

Richard Corey
Executive Officer
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Golden State Power Cooperative's Comments on the Proposed Electric Distribution Utility Allowance Allocations

Dear Mr. Corey,

Golden State Power Cooperative (GSPC or "Cooperatives") provides these comments in response to the December 21, 2016 California Air Resources Board (CARB) release of the modified text and proposed amendments to the California Cap On Greenhouse Gas Emissions And Market-Based Compliance Mechanisms, also referred to as the Cap-and-Trade Program ("Program"). These comments are directed specifically at Table 9-4 of the modified text and Attachment C, pertaining to the allocation of post-2020 allowances to Electrical Distribution Utilities (EDUs).

GSPC is the statewide trade association representing California's not-for-profit, member-owned electric cooperatives, including Anza Electric Cooperative, Plumas-Sierra Rural Electric Cooperative, and Surprise Valley Electrification Corp. Cooperatives are owned and governed by local, member-elected boards from the rural communities they serve.

California's energy policy is becoming increasingly integrated with many other regulatory proceedings relying on the accurate data from the CARB's scoping plan. Determining the final post-2020 cap for the Cap-and-Trade Program and ensuring equitable allowance allocations to affected covered entities are crucial to several policy proceedings. GSPC appreciates the opportunity to provide these comments and looks forward to continuing to work with CARB staff to further resolve the issues addressed herein.

Load Growth Considerations

CARB used an "average annual growth" factor in their load forecast methodology. The Cooperatives are concerned that low growth estimates will penalize EDUs for load growth.

Electric cooperatives are anticipating significant load growth that is not reflected in the "Energy to Serve Load" forecasts. Since this data is fundamental to projecting the cost burden of compliance with the Program, we believe the data must be revised to reflect dramatic differences in annual growth projections. Each of the cooperatives are experiencing or anticipating significant load growth due to agricultural irrigation load expansion, heating and cooling fuel switching, as well as transportation electrification.

Anza Electric Cooperative's year-over-year load growth has been significant over the previous two years due mainly to marijuana cultivation, in addition to normal levels of new residential construction. In total, this growth is 3.4% per year, and expected to rise further with the legalization of marijuana cultivation in California. Average annual growth of only 0.41% was used to calculate allowance allocation, which significantly underestimates their cost burden to comply with the Program and detracts from the ability of AEC to mitigate the impact of the Program on their members.

Electrification of the transportation sector is clearly a statewide goal that merits significant consideration when making forecast assumptions. However, we are concerned that Staff's focus on transportation sector is the only exception to load growth assumptions. Fuel switching to decarbonized electricity for home and building space conditioning is also a crucial part of the state's plan to reduce greenhouse gas emissions and should not be overlooked as having a potentially significant impact in the electricity sector's growth projections. Capping the allowances available to EDUs that experience growth from "beneficial electrification" would penalize those EDUs that proactively sought to encourage the state's overall greenhouse gas reduction goals to fuel switch away from fossil fuels in buildings and cars.

We hope to work proactively with staff to identify acceptable source documents to substantiate the need to update the "average annual growth" factor used in Cooperatives' load forecasts. Based on the demonstrated disparity between the cooperatives' current load and documented load growth and the information used in the CARB allocation proposal ("Proposal"), the number of allowances allocated to the cooperatives is insufficient to meet their program cost burden.

2021 Program Transition

The new allowance allocation methodology is intended to provide allowances to the EDUs based on the cap-and-trade program cost burden faced by their electricity customers. The value of those allowances would be used exclusively for the benefit of the EDUs' electricity customers. Attachment C states that the cost burden is specific to the incremental cost of compliance with this Program:

> "In developing the Regulation, ARB recognized that allocation to EDUs should "reflect the 'cost burden' associated with Program emissions costs that is anticipated to be borne by the ratepayers for each distribution utility" (ARB 2010B). Cost burden is the effect on

ratepayers of the incremental cost of power to serve load due to the compliance cost for GHG emissions caused by the Program." (Attachment C, p. 2)

While similar in principle, the proposed allowance allocation methodology significantly reduces the number of allowances that are allocated to the EDUs for the benefit of their electricity ratepayers. In particular, the restrictive definition of cost burden that does not take into account the totality of EDU investments in carbon-free resources and underestimates the total cost burden to EDUs. This results in a significant decline in the allocation of allowances between 2020 and 2021 for some EDUs. This 2021 Allocation "Program Transition Cliff", or steep decline in allowance allocations is our foremost concern. For example, the Proposal would decrease allowance allocations between the year 2020 and 2021 by a shocking 64% for Anza Electric Cooperative. The "cliff" needs to be significantly mitigated because it is inconsistent with the allocation principles of consumer protection and avoidance of abrupt increases in consumer costs related to carbon pricing.

Additionally, many of the clean energy investments made by Cooperatives still have significant debt and costs associated with them, such as the large investment by Plumas-Sierra REC to build a high-efficiency cogeneration plant specifically designed and built to support the goals of AB 32. This plant has 10 years of principal and interest payments left in 2020. A dramatic decrease in allowance allocations impairs our ability to continue to invest in and construct clean energy resources.

Assumptions in the Allocation Calculations

To accurately calculate the cost burden of all EDUs, the assumptions upon which adjustments are based must be correctly applied. The allowance allocation Proposal includes an annual decline in the number of allowances allocated based on "the assumption that each EDU procures RPS-eligible power that increases from the mandated 33 percent in 2020 to 50 percent in 2030." (Attachment C, p. 6) Attachment C makes clear that CARB believes that the allocation methodology must reflect the mandates of SB 350 and that those requirements will result in a "significant decrease in cost burden that is associated with increasing renewable electricity purchases." (Attachment C, p. 5) These assumptions about renewable procurement upon which this proposal is based are not applicable to the Cooperatives.

The Proposal does not recognize the disproportionate cost burden of the Cap-and-Trade Program on electric cooperatives. The Program impacts the members of electric cooperatives disproportionately because the allocation methodology assumes each EDU is required to increase their Renewable Portfolio Standard from 33% to 50% from 2020 to 2030, and only attempts to mitigate the incremental impact of the Program. Electric cooperatives are regulated differently than other types of EDUs and, therefore, using the same regulatory assumptions is inappropriate. Thus, the RPS assumption ignores the higher cost for electric cooperatives to comply with the Program. If the allowance allocation is indeed based on "incremental cost of power to serve load due to the requirement to surrender compliance instruments in the Cap-and-Trade Program,"[1] then the methodology needs to recognize the greater incremental cost for electric cooperatives.

The Cooperatives are unique distribution utilities in California that provide electric service to very small, rural communities and they are as distinctive and diverse as the communities they serve. Decreasing allowances will have a greater negative effect on the ratepayer/member of our disadvantaged, rural communities due to the limitations of our fixed-income members.

There are several fundamental reasons why Cooperatives are regulated differently. By law, the cooperatives are not-for-profit, and are defined with the distinct purpose of transmitting or distributing electricity exclusively to its members "at cost." (Cal. Pub. Util. Code, section 2776.) The Cooperatives provide electric service to their members living in rural communities that were unserved by for-profit investor-owned utilities, which charge "retail" rates. Cooperatives serve an average of 3-5 consumers per mile of power line; roughly 1/10 of the population density as some investor-owned and municipal utility territories. Therefore, the cost to serve customers is intrinsically greater.

Furthermore, electric cooperatives have debt and contractual obligations to the Federal government (United States Department of Agriculture's Rural Utility Service and Power Marketing Administrations), which complicates our ability to make resource portfolio changes and divestments. This unique relationship with the federal government is an additional reason why Cooperatives have been distinctly regulated.

We ask Staff to reconsider their regulatory assumptions that were used to calculate the incremental impact of this Program on our members.

Allowance Use

Electric Cooperatives are concerned that CARB staff is considering prescriptive mandates for the use of the allowance value. Attachment C states:

> "Staff is also considering requiring POUs and co-ops to consign allocated allowances to auction and requiring that the auction proceeds be used for specific purposes. Requiring consignment would align the use of allowance value amongst investor-owned EDUs, publicly owned EDU, electrical cooperatives, and natural gas suppliers."[2]

The EDUs are already restricted in the use of allowance value by the section 95892(d); regardless of the specific manner in which the cooperatives' governing bodies direct the allowance value to be used, those uses must "be used exclusively for the benefit of retail ratepayers . . . consistent with the goas of AB 32, and may not be used for the benefit of entities or persons other than such

---

[1] https://www.arb.ca.gov/cc/capandtrade/meetings/20161021/oct-21-workshop-slides.pdf
[2] https://www.arb.ca.gov/regact/2016/capandtrade16/attachc.pdf

ratepayers." Within those specific parameters, the ability of the cooperatives to use the allowance value has been a positive component of the Program for electric cooperatives. Not only do the three electric cooperatives differ greatly in their use of the allowance value, they are collectively significantly different than other EDUs, especially investor owned utilities. The flexible use is integral in recognizing the autonomous structure of democratically elected, local boards that make decisions in the best interest of their member-owners; not investors. The electric cooperatives do not believe it is prudent or good policy for CARB to prescribe additional restrictions on the use of allowance value. Indeed, doing so would more likely adversely impact EDU ratepayers as CARB attempts to mandate one-size-fits-all restrictions on the use of allowance value.

Electric cooperatives serve rural consumers; the infrastructure cost to serve less than five members per mile of power line is a challenge that shouldn't be ignored. Electric cooperatives are different, and it is imperative that we are afforded a magnitude of flexibility so that we are able to keep electricity service affordable for the rural Californian.

Furthermore, the electric cooperatives are concerned that CARB is raising this issue for the first time in the context of 15-day changes to the originally proposed amendments. The August 2, 2016 regulatory documents did not raise this issue, except to include a new provision regarding the time during which the allowance value must be used. Indeed, CARB's explanation of the proposed amendments to section 95892 specifically referred to the changes as "nonsubstative." Based on that characterization and the fact that no reference was made to potential further revisions in the original rulemaking materials, the cooperatives do not believe that this issue is properly within the scope of the current rulemaking.

Conclusion

To accurately mitigate the cost-burden of the Cap-and-Trade Program on all EDU electricity customers, electric cooperatives must be recognized as a separate type of EDU with very different regulations and costs associated with serving our member-owners. While we recognize that a uniform approach for all EDUs allows for a simpler methodology than examining each EDU based on different criteria, as discussed herein, there are instances when that single methodology fails to accurately reflect the legal obligations upon which the methodology is based; as a result, the methodology fails to properly capture the stated intent for which allowances are allocated to EDUs. For these reasons, we ask that Staff reexamine the assumptions used in the allocation methodology and to take a deeper look into the impact the Program has on our member-owners based on the specific information and data referenced in these comments. In particular, we urge Staff to reconsider the misguided assumptions about the incremental impact of the Program on electric cooperative member-owners as well as the significant shock of the 2021 allowance "cliff".

GSPC appreciates the opportunity to provide these comments and looks forward to working closely with Staff as we refine the average annual load and forecast data. If you have any questions regarding these comments, please do not hesitate to contact the undersigned.

Respectfully submitted,

Jessica L. Nelson, General Manager
Golden State Power Cooperative