



To: Richard Corey, Executive Officer, California Air Resources Board

CC: Edie Chang
Craig Segall
Michael Gibbs

RE: California Utilities offer Guiding Principles for Clean Power Plan Implementation

Dear Mr. Corey,

Introduction

The California Utilities¹ appreciate this opportunity to comment on the California Air Resources Board's (ARB's) Clean Power Plan Compliance Discussion Paper (Whitepaper) and the subsequent October Workshop. Both the Whitepaper and the Workshop focused on compliance pathways for our state with the U.S. Environmental Protection Agency's (EPA) final rule addressing CO₂ emissions from existing fossil-fueled electric generating units (EGUs) under section 111(d) of the Clean Air Act.²

California's Track Record of Climate Leadership

California continues to be a regional and national leader in reducing GHG emissions. In 2006, California enacted Assembly Bill (AB) 32 to reduce statewide GHG emissions to 1990 levels by 2020. Several initiatives directly affecting the power sector are in place to support the attainment of AB 32's goal, including wide-ranging energy efficiency (EE) programs, a Renewables Portfolio Standard (RPS), and an Emission Performance Standard (EPS) for baseload generation. Another important example of California's leadership is the state's multi-sector GHG cap-and-trade program – which puts a clear price on GHG emissions in the electricity, transportation, and other sectors, thereby encouraging the transition toward lower-carbon energy sources.

California's electric sector initiatives are working well; total GHG emissions from the sector decreased by 9 percent from 2000 to 2012, in spite of the shutdown of the San Onofre Nuclear

¹ Southern California Edison, Pacific Gas & Electric Company, San Diego Gas and Electric, Southern California Gas Company, Los Angeles Department of Water and Power, Sacramento Municipal Utility District, Modesto Irrigation District, Turlock Irrigation District, and the members of the Southern California Public Power Authority, Northern California Power Agency, and the California Municipal Utilities Association, who together serve over 35 million (1 out of 9) Americans.

² Otherwise known as the "Final Rule," "Clean Power Plan" or "CPP"

Generating Station (SONGS) and low hydropower generation due to an extended period of drought.³ Emissions from the sector are expected to continue to decrease due to the state's recently-strengthened RPS program, energy efficiency goals, and the phase out of electricity imports from coal plants.

Due to the state's historic efforts and ambitious plans for climate action, California appears to be well-positioned to attain the federal carbon standards as finalized by the EPA⁴. The work ahead will require state agencies and stakeholders to publicly analyze and determine the best state plan design for California's utility customers. The California Utilities' objective for this state plan is to balance the need to effectively reduce emissions with the need to provide our customers safe, affordable, and reliable electric service. To further a state plan that strikes that balance, the California Utilities provide the following Guiding Principles to help focus and direct the work ahead. These principles are intended to offer the ARB preliminary feedback and suggestions for further study.

Guiding Principles

- **ARB should publicly analyze a range of potential state plan design options with reliability, efficient markets, and utility customer costs in mind.** The “state measures” design option for the State Plan has initially received the majority of attention in CARB's Discussion Paper and Workshop, the California Utilities suggest that , ARB evaluate and compare different design options, including the ‘emission standard’ approach, before deciding on what form the State Plan should take. Under an emission standard state plan approach, ARB should consider the value of any over-compliance with the Clean Power Plan due to existing state policy, and how that value can be returned to California utility customers and/or additional GHG reducing programs by pursuing an implementation plan that includes inter-state trading. In addition, under any type of plan design (including state measures), we encourage ARB to explore opportunities to link with other jurisdictions implementing mass-based CPP emission budget trading programs. Under the final rule, EPA has created a pathway for states like California (with cap-and-trade programs that differ from the EPA model in scope, offsets, and cost containment mechanisms) to still link with mass-based trading programs that develop under the CPP. The California Utilities are still investigating the implications of this type of trading linkage and encourage CARB and other stakeholders to join us in that effort.
- **ARB should protect power imports from duplicative carbon regulation, which could occur if or when a neighboring state and California both levy a GHG price on the emissions associated with the same MWh of energy.** Absent any changes in California's approach post-2020, power plants importing to California could pay twice for GHG costs beginning in 2022 – once according to the CPP for the state in which they are located and once to comply with California's cap-and-trade program. The California Utilities recognize the legal obligation CARB has to account for the emissions from imported power, but as

³ California Air Resources Board, “First Update to the Climate Change Scoping Plan.” May 2014:

http://www.arb.ca.gov/cc/scopingplan/2013_update/first_update_climate_change_scoping_plan.pdf

⁴ Because the CPP only considers the emissions of a subset of electricity production covered under AB 32, overall GHG reductions in the electric sector as defined under AB 32 that includes imports may not correspond with reductions at the specific California generation facilities covered by the CPP.

other states begin submitting their CPP implementation plans, they will begin accounting for and regulating their in-state emissions. How CARB and the California Energy agencies, including the California Independent System Operator (CAISO), address this reality will be crucial to ensure a level playing field for all western power market participants, and the efficient operation of western electricity markets more broadly. California must account for the emission reduction plans of other states. Otherwise, this potential double regulation of imported power could distort least-cost dispatch in electric markets and siting incentives, and raise costs for California utility customers.

In addition, some California utilities are proactively reducing use of, or divesting entirely from, long-term utility customer investments in higher-emitting power plants early and replacing this generation with clean, lower emitting resources (including renewables and natural gas) in order to comply with California's climate goals more quickly. To the extent carbon emissions are reduced by divesting or shutting down generation physically located in neighboring states but serving load in California, these efforts could appear to increase California emissions levels while neighboring states see a substantial decrease, with costs borne by California consumers. Coordinating CPP compliance with other states in the region would help ensure that all emission reductions by California utilities are credited appropriately.

- **California's effort to confer with other western states, and to seek out potential linkages, should be increased at this critical time of Clean Power Plan implementation.** It is important to recognize that California's major economic sectors operate in markets that extend well beyond our borders – and the electricity markets are no different. The California Utilities believe larger and more diverse markets can enhance the prospects for efficient market outcomes, eventually leading to lower-cost emission reduction opportunities, and reducing the risk of emissions leakage. And most importantly, expanded markets can deliver all these benefits while still attaining the goals of state and federal programs. A uniform carbon price across the WECC, however determined, can promote efficient dispatch and investment in western power markets. The California Utilities urge CARB to continue the dialogue with California's neighbors throughout the WECC in an effort to realize the benefits from regional collaborations.
- **ARB should ensure that any facility-level permitting requirements that arise as a federally enforceable backstop can feasibly be met at a reasonable price.** If a state measures plan design is adopted, and a federally-enforceable backstop is necessary, any facility-level permit requirements must be coordinated with local air districts and the wider group of California energy agencies. Facility-level permits, if utilized as the backstop mechanism, should allow units to access in-state and out-of-state trading opportunities to ensure there is sufficient supply to facilitate compliance at reasonable costs.
- **ARB should consider, in both state plan design and corresponding changes to Cap-and-Trade regulations, the increase in electric sector GHG emissions that will result from the state's transportation electrification efforts – even while emissions will clearly fall from a societal vantage point.** While utilities continue to accelerate decarbonization efforts, there will necessarily be an interim period in which increased load due to transportation

electrification and other forms of electrification is likely to be served with a combination of renewables and natural gas resources. This will increase the electric sector's emissions, to a yet unknown degree, while reducing emissions from the transportation sector. The California Utilities support these ongoing efforts and respectfully request that ARB identify and consider overall benefits and burdens associated with the continued trend towards electrifying the transportation sector as ARB is directed to do with enactment of Senate Bill 350 (de Leon, 2015).

- **ARB should submit a non-binding statement of interest for participating in the Clean Energy Incentive Program – and further determine how our state and regulated entities may participate in this program.** The California Utilities see potential benefits in the Clean Energy Incentive Program and encourage ARB to further investigate how the program may be leveraged to help reward early actors in our state.
- **ARB should coordinate closely with regional partners to study the impacts of emerging state implementation plans on reliability.** As the plans of neighboring states become increasingly clear over the course of the next few years, California state agencies should continue to engage in the reliability studies taking place at multiple scales with state, regional, and national groups. Ongoing regional coordination will be necessary, even after California completes its own reliability assessment.
- **Continued collaboration among State agencies will be necessary to help streamline compliance with the Clean Power Plan and state measures.** The California Utilities applaud ARB staff for its collaboration with the California Energy Commission and California Public Utilities Commission in presenting initial proposals for Clean Power Plan compliance. Interagency coordination will be instrumental in developing strategically-aligned policies that capitalize on the State's existing expertise and programs. A significant number of existing policy and legislative mandates will impact California's implementation of the Clean Power Plan; these should be closely coordinated and, to the greatest extent possible, streamlined to eliminate redundant public processes. We also encourage state agencies to coordinate with the CAISO to ensure that carbon market designs are harmonized with changing electric market designs.

Conclusion

The California Utilities appreciate this opportunity to provide initial feedback as state agencies begin to determine what form California's implementation plan may take. As apparent from this list of guiding principles, there is much work to be done, and the California Utilities look forward to continued dialogue with our state agencies to find solutions to the many design challenges that lay ahead.