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January 11, 2016 | Submitted Electronically

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California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: SCPPA Comments on December 14, 2015 ARB Workshop

Thank you for the opportunity to provide comments on the December 14, 2015 ARB Public Workshop on California's Plan for Compliance with the Clean Power Plan and Potential 2016 Amendments to the Cap-and-Trade Program, including Senate Bill 350 (de Leon) implementation.

The Southern California Public Power Authority (SCPPA) is a joint powers agency whose members include the cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, and Vernon, and the Imperial Irrigation District. Each Member owns and operates a publicly owned electric utility governed by a board of local officials. Our Members collectively serve nearly five million people in Southern California.

We look forward to the continued working relationship that has developed over the years between and among ARB, other state agencies, and stakeholders on the variety of complex and intertwined issues associated with regulating the electricity sector for greenhouse gas (GHG) reductions. The next step in that process is the continued development of a workable federal Clean Power Plan (CPP) compliance plan and its *de facto* intersection with the Cap-and-Trade Regulation (Regulation). In addition to the expected integration of Cap-and-Trade with CPP, ARB is also tasked with a Third Compliance period update to the Regulation and implementation of the recently enacted SB 350. SCPPA's goal is to ensure that the policies considered and the programs ultimately adopted by the State are consistent and mutually complementary, and do not pancake costs or obviate investments and efforts already exerted by Californians. SCPPA also encourages ARB to continue working with its sister state agencies as each Cap-and-Trade, CPP and SB 350 decision is inexorably interlinked with other policy and regulatory efforts underway. Below, SCPPA responds to several of the important issues presented by ARB staff, beginning first with proposed amendments to the Cap-and-Trade Program.

2016 CAP-AND-TRADE REGULATION AMENDMENTS

In addition to comments previously submitted on amendments to the Cap-and-Trade Regulation, SCPPA offers the following feedback on items discussed during the December 14 Public Workshop:

- **Retain the RPS Adjustment.** As indicated in previous meetings with staff, SCPPA strongly encourages ARB staff to retain the RPS Adjustment in the Regulation. Imported renewable electricity resources are essential for many California utilities' efforts toward achieving California's increasing Renewables Portfolio Standard (RPS) target and will help meet California's aggressive climate change goals. It would be inconsistent to require California ratepayers to now pay an emissions compliance cost – in addition to the costs associated with planning for, development and transmission of, and any environmental mitigation costs necessary – to procure renewable energy that had been deemed to be "emissions free" in complying with the 33% RPS. Consistent implementation of the RPS Adjustment provisions is a critical component of ensuring the continued successful and cost-effective implementation of the RPS and Cap-and-Trade Program without prejudicing in-state versus out-of-state renewable resources.

The RPS and the Cap-and-Trade Regulation are key components in the State's efforts to reduce GHG emissions and should complement each other; one program should not reduce the effectiveness of the other. Out-of-state renewables are an important means of achieving the State's RPS, which is just one of a series of measures SCPPA Members are faced with – other policies of importance include implementation of the federal Clean Power Plan, potential expansion of CAISO and its Energy Imbalance Market, Governor Brown's Executive Order B-30-15 that set a GHG emissions reduction target of 40% below 1990 levels by 2030, California's push to electrify the transportation sector, and increased land-use restrictions that inhibit the ability to build large-scale renewable projects in California (*e.g.*, the Los Angeles County "Renewables Energy Ordinance"). The RPS Adjustment ensures fair regulatory treatment of RPS-compliant contracts and investments. In the October 2011 Final Statement of Reasons for the Mandatory Reporting Regulation amendments (page 108), ARB states that the RPS Adjustment is "an adjustment to the compliance obligation to recognize the cost to comply with the RPS program" and "ARB included the RPS Adjustment for the specific purpose of reducing the cost of RPS compliance that would be born directly or indirectly by entities that must comply with California's RPS program." The RPS Adjustment is important to properly address the Cap-and-Trade compliance cost for imported renewable energy that is indirectly delivered.

SCPPA and its Members believe that previous staff challenges noted at the December 14 Public Workshop can be reasonably and mutually addressed to preserve and ensure the continued and necessary role of the RPS Adjustment. It is unnecessary, and likely counterproductive, to eliminate the RPS Adjustment credit, as doing so would impose significant additional and unexpected compliance costs on California electric utilities and their ratepayers and consumers, in essence *hindering* compliance with broader climate goals. We do, however, note that the discussed possible remedy of moving reporting dates up would not likely yield an expected outcome, since verified data is not available much earlier than the existing reporting deadlines.

SCPPA looks forward to, and would suggest a technical meeting with staff to work towards developing agreeable amendments to both keep and improve the RPS Adjustment. As such, SCPPA continues to offer the following technical improvements to the RPS Adjustment provisions:

- **Properly crediting the 2% transmission line loss correction factor.** The current RPS Adjustment does not fully offset GHG emissions for imported renewable electricity that is not directly delivered, since it does not include proper crediting for the 2% transmission line loss factor that is automatically added to all unspecified imports, including indirectly delivered renewable energy. The transmission line loss factor (which is for GHG emissions accounting purposes) should be credited under the RPS Adjustment (which in itself would not be a recognition of avoided emissions but an adjustment to the Cap-and-Trade compliance obligation). Directly and indirectly delivered renewable energy should be treated equally; there should be no Cap-and-Trade compliance obligation for either one. Adding credit for the 2% transmission line loss factor to the RPS Adjustment seems only logical as both the directly and indirectly delivered renewable energy uses transmission obligation and will not affect the GHG emissions inventory.

- **Clarifying the Renewable Energy Credit (REC) retirement deadline for RPS Adjustment purposes.** Currently, Section 95852(b)(4) states that RECs must be placed into a retirement account within 45 days of the reporting deadline for the year for which the RPS Adjustment is claimed. "Within 45 days" could be interpreted as between April 15 and July 15. We understand from ARB staff that the intent was to allow RECs to be retired up to 45 days after the reporting due date. The rule language should be clarified to specify that RECs claimed for the RPS Adjustment must be retired no later than 45 days following the June 1 reporting deadline.

- **Crediting voluntary green power programs.** The RPS Adjustment applies only to indirectly delivered renewable electricity that is used for RPS Compliance. It does not apply to indirectly delivered renewable electricity that some utilities procure on behalf of "voluntary" green power program customers who pay premiums for the procurement of renewable electricity above and beyond a host utility's RPS compliance. This is because the RECs associated with the energy imported for these program customers are not designated as "retired" in

the California Energy Commission's accounting system for the purpose of complying with the RPS. Accounting inadequacy for such voluntary programs was recognized in the recently-enacted SB 350 and will likely need to be implemented via a rulemaking. SCPPA recommends adding a credit similar to the RPS Adjustment that applies to voluntary green power programs to ensure equal treatment for renewable power procured on behalf of utility customers and to properly reward such initiative taken by individual California consumers.

- **Asset Controlling Supplier (ACS) Power.** SCPPA remains extremely concerned with the inconsistent "actual" versus "paperwork" emissions profile treatment of imported zero- and low-GHG emission electricity. For example, directly delivered null power (renewable energy without the RECs) must be reported as specified with a zero emission factor even though the importer purchased the energy without the environmental attributes (RECs). In contrast, directly delivered ACS power must now be reported as unspecified with the (higher) default emission factor instead of the (lower) ACS emissions factor if the importer did not pay a "premium" to the seller to label the power as specified (with environmental attributes). SCPPA continues to question why, if power from another renewable facility is treated as zero emission without having to pay a premium to buy the environmental attributes, ACS system-generated power is treated differently (i.e. why isn't power generated by an ACS system treated as low-GHG without having to pay a premium to buy the environmental attributes?).

  Prior to 2014, all imported ACS power was reported as specified with the corresponding low-GHG emissions factor and was counted as low-GHG in the statewide GHG emissions inventory. That changed with the 2013 amendments to the Mandatory Reporting Regulation when ARB inserted new contract labeling requirements for ACS power that benefits non-California Asset Controlling Suppliers to the detriment of California utilities and consumers. In effect, the 2013 rule amendment changed specified low-GHG ACS power into unspecified higher-GHG power, which is going in the wrong direction if California hopes to achieve its aggressive 2030 and 2050 GHG emission reduction goals. This must be corrected to ensure parity and the consistent treatment of directly delivered low-GHG imported power. Counting directly delivered ACS power as unspecified is adversely impacting California's progress towards achieving its GHG emission reduction goals.

  The table below illustrates how the 2013 rule amendment to the reporting criteria for imported ACS power has adversely impacted one of SCPPA's members. It shows a year-to-year comparison of reported GHG emissions and corresponding Cap-and-Trade compliance costs for directly delivered ACS power imported by the SCPPA member prior to and after the rule amendment took effect. The marked increase in emissions and compliance costs shown in Calendar Year 2014 (CY 2014) is an increase on paper only, and is the direct result of the 2013 amendment to MRR section 95111(a)(5)(B) that deleted "Report delivered electricity as specified and not as unspecified" and replaced it with "Report asset-controlling supplier power that was not acquired as specified power, as unspecified power." Note that the numbers provided in the table are rounded approximations.

  As the table indicates, the impact of the amendment to the ACS power reporting criteria adds a compliance obligation of over 200,000 metric tons of GHG emissions. The increased obligation impacts market availability and potentially the price of allowances. It will consume valuable allowances for emissions that do not exist. This effect may be even more pronounced if the same increase is being felt by more entities. While in the overall scheme of things this is a relatively small portion of total allowances, the increased obligation is equivalent to that of eight facilities tripping the cap-and-trade obligation threshold.

  SCPPA urges ARB staff to consider the cumulative impact of all issues raised by SCPPA in this letter and previous ones; while each individual issue may appear relatively minor, the total effect on Cap-and-Trade Program participants may be substantial.

	CY 2013 **Imported ~570,000 MWH of ACS power** (directly delivered from ACS source to final point of delivery in California)				**CY 2014** **Imported ~669,000 MWH of ACS power** (directly delivered from ACS source to final point of delivery in California)			
Source on E-tag	**Specified ACS Power**		**Unspecified ACS Power**		**Specified ACS Power** (purchased direct from Bonneville Power)		**Unspecified ACS Power** (not acquired as specified power)	
Emission Factor	0.0293 or 0.0249 MT CO_2e per MWh		0.428 MT CO_2e per MWh		0.0216 or 0.0192 MT CO_2e per MWh		0.428 MT CO_2e per MWh	
	(MWH)	**(metric tons)**	**(MWH)**	**(metric tons)**	**(MWH)**	**(metric tons)**	**(MWH)**	**(metric tons)**
Total	570,000	15,000	–	–	168,000	3,200	501,000	214,000
Estimated C&T Cost	–	$184,000	–	$0	–	$37,000	–	$2,495,000
Increase in Reported Emissions (no change in actual emissions)	–	–	–	–	–	–	–	**204,000**
Increase in C&T Cost	–	–	–	–	–	–	–	**$2,379,000**

SB 350 IMPLEMENTATION

The impact of setting 2030 individual utility emissions reduction “targets” is another significant policy and technical exercise that cannot be underestimated. SCPPA offers the comments below in addition to its prior submission.

- **Set “soft” targets.** SCPPA strongly supports ARB staff’s suggestion to treat any newly established SB 350 targets as “soft targets,” i.e., non-binding. Moreover, SCPPA Members encourage ARB to establish reasonable compliance flexibility. For example, the targets should be set as ranges, and ARB should allow fair and reasonable off-ramps and/or adjustments, or promulgate a specific list of excusable reasons why the targets may not be timely achieved. For example, transportation electrification initiatives (including for vehicles, at ports, and other items identified in the Mobile Source Strategy) could be a key contributor to increased energy demand that may not necessarily align with efforts to reduce utility sector emissions. Given the State’s overarching multi-industry goals under its *economy-wide* Cap-and-Trade Program, adding a hard, *single industry-specific* target with discernible benchmarks will only complicate stakeholders’ ability to comply.

- **Targets should be based on end 2030 goals.** Any targets developed should consider the trajectory for existing projects and utility loads and loading orders. Moreover, the goals should not have “benchmarks” for compliance, since some key input factors are based on constants with a presumed “turning point” (*e.g.*, SCPPA Members with long-term coal contracts will see substantial improvement(s) in GHG emissions once the present underlying contract(s) term out or are divested, but may show less significant progress in interim years). Targets should rightfully be based on an end goal for 2030 to ensure that California utilities are not subjected to cost impacts due to stranded long-term investments, exposing an individual industry sector to potential market manipulation costs, and thus pressuring utility rates artificially higher. SCPPA believes that California-wide “soft target” trajectories must also be reflective of emissions reduction accomplishments from other non-utility sectors and of resource procurement guidelines established by the California Energy Commission, which includes alternative cost compliance and cost effectiveness considerations in setting parameters.

- **Involve local publicly owned utility governing boards.** SCPPA strongly emphasizes the importance of establishing regulatory processes that do not supersede or interfere with publicly owned utilities’ existing and required local governing board jurisdiction and approval processes. Any targets or integrated resource plans developed for

compliance with SB 350 should be considered under a similar approach as past actions. SCPPA very much appreciated Senator de Leon's efforts to acknowledge that publicly owned utility governing boards must have alternative compliance options available to them when complying with new 50% RPS procurement requirements. It is recognized that tax-exempt municipal bonds are the primary means that publicly owned utilities finance energy projects and that publicly owned utilities did not divest of their generation assets during the deregulation (because they did not have to) – meaning that many are still "fully resourced" under long-term contracts and/or ownership agreements. As the RPS increases from 33% to 50%, these utilities could be forced to strand publicly financed assets, "dump" energy purchased or generated from these resources financed with tax-exempt bonds (impacting the manner in which utilities participate in markets), and require a significant change in operational requirements that could result in unacceptable grid reliability impacts. ARB should similarly involve and consult with the expertise offered by local governing boards in setting SB 350 "targets" and recognize all rational and good faith efforts to comply with any new targets, within the parameters of maintaining affordable rates (for rate payers and customers) and ensuring power supply reliability.

FEDERAL CLEAN POWER PLAN (CPP) IMPLEMENTATION

Lastly, while SCPPA previously offered comments on California's CPP compliance, we would like to take this opportunity to respond to a few of the items presented at the December 14 Public Workshop, specifically:

- **Modeling.** Incorporating SB 350 and post-2020 policies into new modeling will be critical to developing truly representative (and trustworthy) results; specifically, the model should consider the yet-to-be released updated CEC Integrated Energy Policy Report (IEPR) forecasts and tie-in with ARB's own Mobile Source Strategy and Sustainable Freight Strategy. In addition, SCPPA Members are concerned about the aggressiveness of the energy efficiency assumptions presented, from both a cost and feasibility perspective. SCPPA urges ARB to ensure that the glide path is workable and achievable.

  The modeling should also evaluate inter-state benefits and impacts given the inter-connected nature of the Western electricity grid and one of the most significant changes that EPA made from the proposed rule to the final rule – specifically: **to promote broader regional cooperation**. This modeling should publicly assess how California can and should contribute to broader regional collaboration efforts as other Western states assess using a mass- or rate-based approach and potential inter-state trading/optimization opportunities to comply with Clean Power Plan requirements.

- **Regional Collaboration.** SCPPA continues to encourage state policymakers to take an active role in regional discussions on Clean Power Plan implementation. California's coordination with other states in the region promotes the development of renewable generation and integration efforts throughout the West, while also maintaining broader grid reliability, ensuring long-term power supply affordability, and promoting a holistically beneficial Western regional marketplace with reduced cost burden for individual entities.

  SCPPA is keenly interested in how California will contribute as an active partner with other Western States. While we appreciate efforts to broaden California's Cap-and-Trade Program with our Canadian partners – who do not have a CPP compliance obligation – working with other Western States where California sources a significant amount of power from should be a high priority. ARB should consider whether to establish a separate program or "exit strategy" for entities with affected electrical generation units to trade/optimize with other "willing and ready" states. Otherwise, we fear that CPP compliance burdens may be unfairly and unjustly concentrated on the California CPP entities while at the same time other states in the region are subjected to individual (read "more acute") compliance obligations without access to California's already developed market. California should again revisit efforts that date back nearly a decade, when the Western Climate Initiative began with the governors of Arizona, California, New Mexico, Oregon, and Washington discussed developing a multi-sector, market-mechanism based program to reduce GHG emissions.

- **Compliance Timeline and Data Reporting.** As an alternative to staff's suggestion to align Cap-and-Trade regulatory compliance timing with CPP deadlines, SCPPA Members suggest that ARB should instead request that CPP compliance be modified to match the November reporting timelines that are currently being implemented under the Cap-and-Trade program; this would undoubtedly benefit from the operational certainty of a well-established program. This alignment with existing and tested compliance regime will enhance entities' ability to comply with both regulatory requirements in a timely and cost-effective manner.

Thank you for your time and consideration. SCPPA looks forward to, and would suggest additional technical meetings with staff to work through these important and complex issues. It is fully expected that ARB would do its utmost to synergize Cap-and-Trade with RPS and CPP such that the combined programs costs to California are minimized.

Respectfully submitted,

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