

Comments of the Western Power Trading Forum to the California Air Resources Board on EPA's Proposed Regulation for Existing Power Plants under Section 111(d) of the Clean Air Act

October 16, 2015

The Western Power Trading Forum¹ (WPTF) welcomes the opportunity to provide input to the California Air Resources Board (CARB) for the development of the 2030 Scoping Plan. As staff noted in presentations at the October 1st kick-off meeting, the Scoping Plan must address multiple state goals - the Governor's goal to reduce greenhouse gas (GHG) emissions to 40% below 1990 levels, the state's target for 50% renewable energy and doubled energy efficiency programs - and align with existing regulatory programs.

Staff also cited the need for the Scoping Plan to be coordinated with California's implementation plan under EPA's Clean Power Plan (CPP). However, in the portion of the presentation focused on opportunities for emission reductions in the electricity sector, Staff highlighted the cap and trade program and the energy imbalance market/regional grid as important implementation tools, but no mention was made of the CPP. While the CPP itself is not a driver of California's GHG efforts, it has significant implications. The CPP will require all states to develop GHG reduction plans for the electricity sector, and will increase demand for renewable and energy efficiency savings throughout the West. Importantly, it also creates the potential for a regional or national carbon market.

WPTF therefore considers it essential that CARB develop the Scoping Plan with full consideration of the broader carbon market that may evolve to implement the CPP. In particular, CARB should consider the potential options for development of a California CPP compliance plan that would enable linkage of the California cap and trade program to other state CPP cap and trade programs.

WPTF recognizes that there are many questions that would need to be addressed in considering potential linkage of California's program to those in other states. Of most concern in the Scoping Plan process is the impact of such linking on achievement of the state's 40% GHG reduction goal. If, in the absence of linking to other state programs, allowance prices outside of California are lower than in California, then linkage of California's program to other state programs would result in a net flow of allowances into California, and a resultant increase in emissions from capped sectors, which could undermine achievement of the 40% goal. Conversely, if California allowance prices are lower than elsewhere in the absence of linking, then linkage would result in a net export of allowances and a consequent reduction in state GHG emissions.

In order to consider linking options, it is important to understand the implications for allowance prices and resulting emission levels. WPTF therefore encourages CARB to ensure that the economic

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 in California and elsewhere across the United States.

analysis for the Scoping Plan include evaluation of the potential for the state's cap and trade program to be linked to other state programs. Specifically, this analysis should:

- Model California allowance prices under the cap and trade program in the absence of linking to other state CPP programs.
- Evaluate the sensitivity of emissions within California cap and trade sectors to changes in allowance prices that could occur if California's program is linked to other state CPP programs. Since other state CPP implementation strategies are not yet known, the evaluation should consider a range of possible allowance prices, rather than attempt to model these prices.
- Quantify the potential deficit or surplus of emission reductions under the cap and trade program relative to the 40% GHG reduction goal at a range of allowance prices.
- Identify opportunities for achieving additional emission reductions in non-capped sectors in the event that linkage results in increased emissions from sectors covered by the cap and trade program.
- Identify potential changes to the cap and trade design that could enable linkage of California's program to other state CPP programs and ensure attainment of the 40% emission reduction goal.

WPTF believes that conducting analysis of this type in the context of the Scoping Plan will provide important information for assessing California's options under the CPP and any modifications to the cap and trade program.