TURLOCK IRRIGATION DISTRICT

January 20, 2017

Ms. Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento CA 95814

Filed Electronically

RE: TID Comments on the Cap-and-Trade and Mandatory Reporting Proposed Regulations.

Turlock Irrigation District ("TID") submits the following comments regarding the California Air Resources Board ("CARB") recently released proposed regulations for the Cap-and-Trade and Mandatory Reporting Regulations (MRR).

TID Background

TID was organized as the first Irrigation District in California on June 6, 1887 and is beginning its 130th year of operation. TID currently serves a retail electric customer base of just over 100,000 customers and provides irrigation water to over 5,800 growers and nearly 150,000 acres of farmland. Of the 11 communities that TID serves, 7 are classified as Disadvantaged.

TID's mission is to provide stable, reliable, and affordable water and power to its customer owners, be good stewards of our resources, and provide a high level of customer satisfaction.

TID is one of eight Balancing Authorities in California, tasked with balancing retail demand, generation, and wholesale purchases and sales while providing adequate reserve capacity to maintain reliability.

TID has a long history of environmental stewardship, beginning when the District was formed, as we acquired some of the oldest water rights on the Tuolumne River. TID has a great track record of caring for natural resources. TID is the majority owner and project manager of the Don Pedro Dam and powerhouse, providing irrigation water and 203 MW or on average approximately 400,000 megawatt-hours of emissions free energy to our customers, while providing flood control and environmental benefits for the region.

TID has already acquired the resources to meet the 33% by 2020 Renewable Portfolio Standard (RPS), having procured 136 MW of wind in 2009 in advance of the RPS mandate on POU's, as well as recently completing a 20 year power purchase agreement for 54 MW of newly constructed in-state utility scale solar, which should satisfy TID RPS eligible procurement through 2024. TID has a diverse portfolio of RPS eligible resources, including wind, small hydro, geothermal, and solar. TID is actively monitoring the renewable energy markets, and will be layering in another piece of RPS eligible generation at the appropriate time.

TID remains committed to working towards the State's climate and clean energy goals, and generally supports the extension of Cap & Trade, notwithstanding numerous implementation concerns outlined below, and offers the following comments on the recently released Draft Cap & Trade Regulations. TID also supports the comments from other Utility Organizations, namely the Joint Utility Group, CMUA, SCPPA, and SMUD.

COMMENTS SUMMARY

1. **TID is disproportionately affected by the revised allowance allocation proposal through a confluence of *ALL* of the following measures**
   a. The 2020-2021 EDU Allowance Allocation "cliff" and steep decline out to 2030.
   b. The application of RPS Targets to Load
   c. The Cap Adjustment Factor
   d. The Redistribution of Allowances to Emissions Intensive Trade Exposed Industries.

2. **TID supports the retention of the RPS Adjustment provision.**

3. **The ARB should retain the POU's option to determine whether their allowances will be placed in the compliance account or consigned to auction.**

4. **The Regulations should not be amended to move all of the unsold allowances into the APCR, and the ARB should not adopt a "floor + $60/ton" concept.**

5. **There should be greater recognition of the important role Electric Distribution Utilities will play in the electrification of the transportation and buildings sectors.**

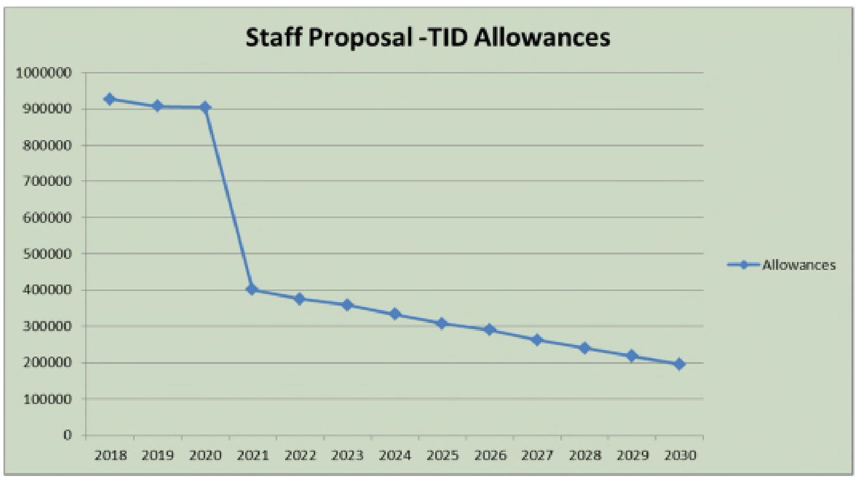
6. **TID supports the retention of the Quantitative Usage Limit on Offsets.**

7. **The ARB should retain the requirement in Section 95852(b)(3)(d) to report REC serial numbers.**

DISCUSSION

1. TID is disproportionately affected by the revised allowance allocation proposal through a confluence of ALL of the following measures:

    a. Staff proposes to drastically cut the amount of allowances allocated to TID on behalf of its ratepayers. Of the 11 communities that TID serves, 7 of them are considered disadvantaged.



As illustrated by the above graph, TID will be experiencing a drastic and sudden reduction in allowances. From 2020 to 2021, a 55% reduction, and from 2020-2030 a nearly 80% reduction in the amount of allowances allocated. In order to avoid rate shocks to EDU customers, the ARB should implement a phased in approach to allowance allocation, starting with the 2020 allocation, and phasing in additional allowances down to the proposed 2021 allocation in 2024. A supplemental "phase in" allocation will help ameliorate the substantial rate shock that may result from the substantial reduction in allowances in the post-2020 program. Due to TID's disadvantaged rate base, the substantial reduction in allocations will harm the very ratepayers that the Program and the EDU allocation rules are designed to protect. Since such a large percentage of TID's ratepayers are in disadvantaged communities, it will be difficult if not impossible to isolate and protect against rate impacts for these customers. The result of such rate increases will contradict the legislative intent behind AB 197, which is to minimize impacts on disadvantaged communities. TID expects the overall impacts to ratepayers to vary significantly and plans to file supplemental comments in this rulemaking with our anticipated cost impacts. To avoid these impacts the ARB should provide a transition to the new allocation levels in the first full compliance period of the post 2020 program.

The ARB should not include a 50% linear RPS assumption in the allowance allocations. This assumption does not reflect the phase in of compliance periods for the 50% by 2030 RPS program. The phase in will also not reflect the panoply of costs that may be imbedded in the achievement of the RPS. For example, TID cannot develop and balance all of its RPS needs within its BAA and consequently incurs significant costs delivering RPS energy to its Balancing Authority Area (e.g., the payment of the Transmission Access Charge). Moreover, the RPS assumptions do not address the fact that LSE's can bank RPS procurement and may be able to procure less RPS energy than is needed within a particular RPS compliance period. The 50% RPS assumption will increase overall program costs associated with meeting the full scope of the State's climate objectives and does not adhere to the ARB's guiding principle for EDU allocations (i.e., to allocate based on expected cost burden). The ARB should instead apply a 33% RPS assumption to the post 2020 allowance allocations.

Due to operating its own Balancing Authority and needing to supply fully integrated energy produced by renewable generation sources, TID faces unique challenges. A small balancing authority is unsuitable for high concentrations of intermittent renewable generation. Balancing authorities outside of the CAISO merit individual consideration when contemplating the allocation process. TID's forward resource plan optimizes our generation portfolio both financially and physically, mixing in our BA requirements; this drives our S-2 filings with the CEC. The Phase 1 Cap & Trade "cost burden" allocation approach (2013-2020) took these resource plans into consideration, and is a much more accurate way of determining what the true GHG cost burden is to the TID ratepayer. TID urges Staff to take a fresh look at the unilateral application of RPS procurement to load.

b. In conjunction with the RPS target allocation declination, the ARB should consider the fact that the electricity sector is already subject to emission reductions by virtue of other state policies, such as the RPS. The ARB should reconsider the Cap Adjustment Factor (CAF) for the electricity sector as it drives up costs for cap-and-trade compliance. With the economy wide "Cap" already set at a severe decline (from 334 mmtCO2e in 2020 to 193 mmtCO2e in 2030), the application of the CAF will increase compliance costs for TID even more, when TID, and the EDU's in the current proposal are being asked to cut emissions by 67-70%. This undercuts a fundamental ratepayer protection rationale for free allocation to EDUs.

c. TID does not support the redistribution of allowances to the covered Industrial customers in our service territory. Our EITE customers have benefited from the allowance allocation as constructed from 2013-2020 in that TID has been able to shield not only the Industrial customers, but all of our ratepayers from the cost of Cap & Trade compliance. The increased costs associated with the lower allocation of allowances will be borne by all ratepayers while the fractional benefit due to the application of the assistance factor only marginally benefits the industrial customer. The reduction in allocations will result in costs that will be borne by all of our customers and will not be directly attributed to our EITE customers. To avoid placing this additional cost burden on all of TID's customers (particularly our disadvantaged communities), the ARB should not redistribute EITE allowances, or at a minimum, apply the assistance factors in the EITE redistribution.

2. TID supports the retention of the RPS adjustment provision. This is extremely important for TID, as a major part of our RPS compliance is tied to the 2009 purchase of the Tuolumne Wind Project located in Washington. The retention of the RPS adjustment is an example of Staff harmonizing RPS with Cap & Trade as directed by AB 32. As stated in the 2010 Final Statement of Reasons (FSOR) (p. 57), "The RPS adjustment provision accomplishes the purpose of reducing a deliverer's compliance obligation by accounting for renewable imports".

3. The ARB should retain the option for POU's to consign all allowances to auction. We are also concerned by the potential for prescriptive ways of spending the revenue. ARB correctly recognized in the 2010 Program design the inherent differences between POU's and IOU's. POU's are typically vertically integrated, and fully resourced, and were never deregulated in the manner in which IOU's were. As noted in the October 2011 FSOR:

> POUs and IOUs operate differently with respect to electricity generation. POUs generally own and operate generation facilities that they use to provide electricity directly to their end-use customers. In order to minimize the administrative costs of the program to the POUs, and recognizing that directly allocating the allowances to the POUs does not distort their economic incentive to make cost-effective emissions reductions, we determined that it would be prudent to allow

POUs to surrender directly allocated allowances without participating in the auction process. IOUs, on the other hand, have contracts with electricity generators that do not afford the IOUs the same level of control over the capital investments and operating decisions of the generation facility. We are concerned that the terms of these contracts could be adversely affected by allowing the IOUs to directly surrender allowances on behalf of their counterparties, which could lead to some foregone cost-effective emissions reductions. Instead, by requiring the IOUs to surrender the allowances at auction, the electricity generators will be sure to have a strong incentive to pass their GHG costs back to the IOUs, who will then be able to use their share of the auction revenue to reduce the ratepayer burden in a manner that is consistent with the goals of AB 32[1].

TID sees no compelling reason to require the consignment of allowances. POU's are focused on compliance, and one of the stated reasons for free allocations is to shield electric ratepayers from the cost of the Cap & Trade program. The POU is uniquely situated to pass any allowance value onto the ratepayers. Requiring the sale of allowances and crafting prescriptive measures for revenue usage will require POU's to raise rates on the very ratepayers that the allowances were designed to protect.

4. TID is opposed to removing any unsold allowances from the market and placing them in the Allowance Price Containment Reserve ("APCR"). We are very concerned that once made, this decision could not be reversed. This change is premature in light of major program changes in the near future: i.e., the new linkage with Ontario and the precipitous and substantial, economy-wide decline of the cap out to 2030. The cap decline in conjunction with the changing floor price will necessarily lead to increases in carbon prices. We also believe that the marked improvement in allowance sales in the auctions since the adoption of SB 32 may signal increased demand for the quarterly auctions.

   Predictably, as a landmark, 1st of its kind program, the Cap & Trade program has experienced a host of legal and regulatory uncertainties which have prevented some participating entities from making long term emissions reductions investments. The CA Carbon market is extremely sensitive to political and legal issues, and has reacted to the surprise win of Scott Brown, the Clean Power Plan stay, and the CA Chamber lawsuit. TID urges Staff to keep these unsold allowances in the market in order to avoid a spike in compliance costs, and be mindful how short the program is expected to be post 2020. There will be ample time to make this change if undersubscription continues in the quarterly auctions. As an alternative, if the Board moves forward with adjusting these allowances,

[1] See page 342 of the October 2011 Final Statement of Reasons for the Cap and Trade Regulations

TID suggests creating multiple tiers for selling allowances between the floor and current top APCR tier, this would be akin to a "speed bump" type of approach.

5. There are a multitude of State Programs incentivizing the electrification of the Transportation sector, and the utilities will be incurring an increase in load and an increase in the associated emissions. The Scoping Plan assumes the state will add 4.2 million Zero Emissions Vehicles, or more. Furthermore, most realize that substantial additional building electrification will occur prior to 2030. Staff has indicated that they are open to providing "supplemental allocations" to the utilities in regards to electrification, as contemplated in SB 350. TID supports this effort and stands willing to assist in developing a methodology to account for increased vehicle and building electrification.

6. TID understands that, even though the Quantitative Usage Limit on Offsets language was retained in the 15 day language, that GHG offsets and their usage for compliance are very much a topic for discussion for future rulemakings. TID supports the retention of the Quantitative Usage Limits as currently constructed, as GHG Offset projects incentivize ***real*** emissions reductions, even though they may be outside of the California State boundaries. The Cap & Trade Program is now regional, and any change, cut, or redefining of GHG Offset eligibility would only serve to drive up compliance costs.

7. The proposed removal of the REC serial number reporting requirement will undermine California ratepayers' investments in out of state renewables by sending a signal to the market place that "null power" can be purchased and delivered at a zero emissions factor even though the importing entity did not purchase the RECs, which include all "green attributes". The term Green Attributes is defined in the WREGIS Operating Rules to include the emissions attributes of renewable resources. By not recognizing green attributes in the MRR and instead allowing null power to be reported as zero emissions power, the ARB has created a fundamental inconsistency between the RPS and the Cap-and-Trade. The ARB's regulations allow null power to be reported as zero emissions power, effectively transferring one of the key benefits of California ratepayers' renewable energy benefits to market participants that acquire the null power. The ARB should not send this market signal. Instead, the ARB should require that null power be reported as unspecified, or at a bare minimum, retain the REC serial number reporting requirement and require a non-conformance finding when an entity does not report REC serial numbers.

8. We are concerned that the removal of the REC serial number requirement will exacerbate the direct delivery concerns the ARB has faced in implementing the RPS adjustment requirements. Without the REC serial numbers, the ARB will not be able to distinguish between those entities that directly delivered null power

from all of the other entities that imported Procurement Content Category 1. By retaining the REC serial number reporting requirement, the ARB will have a list of entities with non-conformances and this information could be used to confirm or bolster RPS adjustment claims and allow for a more in-depth assessment of when there may have been direct delivery and when there was not direct delivery.

In conclusion, the confluence of a host of both methodology and policy changes in the Cap & Trade Program 15 Day language will disproportionately affect TID. TID appreciates Staff's willingness to listen to our concerns, especially in the context of JUG discussions, and affording the opportunity to work with us in the hopes of resolving some of these issues.

TID appreciates the opportunity to submit these comments.

Respectfully Submitted,

/s/

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/s/

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