M S R Public Power Agency

P.O. Box 4060 • Modesto, California 95352 • (209) 526-7373

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Submitted electronically

Rajinder Sahota, Assistant Division Chief
Industrial Strategies Division
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: **Comments Cap-and-Trade Program October 12 Workshop**

Dear Ms. Sahota:

On October 12, 2017, the California Air Resources Board (CARB) hosted a workshop to discuss the status of the Cap-and-Trade Program and the next steps for amendments to the Cap-and-Trade Regulation (Workshop). M-S-R Public Power Agency (M-S-R)[1] provides these comments to CARB staff on the various topics raised during the Workshop to facilitate further discussion on these crucially important issues as CARB moves forward with developing amendments to the Cap-and-Trade Program regulation mandated by Assembly Bill (AB) 398 and additional program changes previewed in the July 2017 Board Resolution adopting the current regulatory amendments (Board Resolution 17-21). M-S-R is comprised of three publicly owned electric utilities that are also electrical distribution utilities (EDU) and covered entities under the Cap-and-Trade Program Regulation (Program),[2] and as such, are directly impacted by the rules governing the Program.

Comments on Select Potential Amendments

<u>Impacts of Transportation Electrification</u>*:* Quantifying the impacts of expanding transportation sector electrification on electric sector emissions is of paramount importance to M-S-R and its member agencies. As the EDUs are called upon to effect greater emissions reductions through a panoply of programs, they are also impacted by increases in their emissions that are directly attributable to transportation electrification. Since these increases are not recognized in the current determination of the EDU's cost burden, they result not only in a

1 Created in 1980, the M-S-R Public Power Agency is a public agency formed by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding.

2 M-S-R is authorized to acquire, construct, maintain, and operate facilities for the generation and transmission of electric power and to enter into contractual agreements for the benefit of any of its members. Currently, M-S-R and its members have contractual arrangements for over 625 megawatts of California Energy Commission (CEC) RPS-certified renewable energy.

showing of increased emissions for EDUs, but also contribute to greater compliance costs and potentially increased electricity rates. M-S-R urges CARB staff to prioritize this issue, and begin working with stakeholders on a methodology for quantifying these impacts immediatley. Doing so will help send clear and decisive market signals that electricity ratepayers will be shielded from unintended adverse impacts associated with increased transportation electrification.

Consignment of Allowances: CARB has stated that it is interested in having further discussions regarding potential changes to the rules governing the consignment of allocated allowances to the auction. As M-S-R noted when this issue was raised during the 2016 rulemaking, the reference to changed rules is surprising given that there have been no market or regulatory changes that would warrant corresponding revisions to the consignment provisions. This issue was extensively deliberated during the 2010-2011 rulemaking process, with the final provisions reflecting the significant structural differences between the vertically integrated POUs and the IOUs. The structure adopted by CARB and reflected in the regulation ensures that POU electricity ratepayers do not have to incur needless administrative costs by consigning all of their allowances into an auction when they own or operate their own generation resources to provide electricity directly to their end-use customers.[3] CARB has not provided information demonstrating the need to change the consignment rules, nor how doing so would further benefit EDU customers. Without this information, M-S-R does not believe that any changes to the rules governing consignment of allowances are warranted.

Restrictions on the Use of Allowance Value: Also raised in the Staff presentation and Board Resolution 17-21 are potential changes to the rules governing the EDUs' use of allowance value. Resolution 17-21 references use of "auction proceeds for specific purposes to further the goals of AB 32 and SB 32," while the staff presentation provides that the upcoming rulemaking will "continue to explore how the value allocated to EDUs can best be utilized to encourage reductions and protect ratepayers." There is certainly value in a continuing dialogue about how to best utilize the value of allocated allowances to encourage emissions reductions and protect electricity ratepayers from cost increases. It is important, however, that the discussion also be framed in the context of ensuring that the local governing boards overseeing the expenditure of the allowance value have the flexibility to implement and administer programs and measures that provide the greatest benefit to their communities. M-S-R looks forward to receiving more information from CARB staff about the specific concerns regarding the current rules applicable to the use of allowance value and ideas for how best to utilize the allowance value for the stated purposes, while still ensuring that "the *POU governing boards have adequate flexibility in designing a mechanism to return allowance value to ratepayers*" consistent with the objectives of AB 32 and SB 32.[4]

Market Protections and Cost Containment: M-S-R and its member will work with CARB staff and other stakeholders on implementation of the many market enhancements directed by the legislature in AB 398. Ensuring market protections, including the ability to bank allowances and rely on an adequate supply of allowances at reasonable prices in the event of extreme market volatility is important for all compliance entities, including EDUs that must also protect their electricity customers from unreasonable rate increases.

3 2011 FSOR, pp. 564-565.
4 See 2011 FSOR, pp. 1145, 1156.

Overallocation 2021-2030: The 2021-2030 emissions cap is not overallocated, and represents an appropriate allowance limit for statewide emissions. M-S-R does not believe that changes should be made to the 2021-2030 allocation, and that stakeholder concerns regarding the number of allowances in the cap can be addressed through a deeper review of the activities, investments, and plans that resulted in the emission reductions achieved to date, as well as how those programs, investments, and plans are likely to impact post-2020 GHG reductions.

Conclusion

The issues raised in AB 398 and Board Resolution 17-21 cover a number of critically important issues that will impact the post-2020 cap-and-trade program. M-S-R appreciates staff's engagement of stakeholders on these issues, even as such a nascent stage in the development process, and looks forward to continued dialogue with staff and interested stakeholders as the proposed amendments to the Cap-and-Trade program regulation are developed.

Respectfully submitted,

Martin R. Hopper
General Manager
M-S-R Public Power Agency