LAW OFFICES OF SUSIE BERLIN

1346 The Alameda, Suite 7, #141
San Jose, CA 95126
408-778-8478
berlin@susieberlinlaw.com

Submitted electronically

July 5, 2018

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

Re: ***Northern California Power Agency** Comments on Second Preliminary Discussion Draft and June 21 Workshop*

Dear Ms. Sahota:

The Northern California Power Agency[1] (NCPA) provides these comments to the California Air Resources Board (CARB) staff in response to the *Second Preliminary Discussion Draft of Potential Changes to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms* (PDD2), released on June 19, 2018 and the subsequent staff workshop held on June 21, 2018 (June Workshop).

NCPA has been working with CARB staff and other stakeholders throughout this pre-rulemaking process, and has submitted comments in response to the earlier workshops, staff presentations, and the first Preliminary Discussion Draft. In these comments, NCPA focuses on the proposed changes in the PDD2 regarding the electrical distribution utilities' (EDUs) use of allowance value. In particular, NCPA urges staff to:

- Ensure that EDUs are not unduly constrained in the use of allowance value that has demonstrated benefits for both ratepayers and greenhouse gas (GHG) reductions;
- Ensure that the processes for demonstrating the benefits to electricity customers take into account the different types of values, and does not rely on draconian quantification metrics; and
- Ensure that EDUs are encouraged to create and implement programs that maximize benefits to their electricity customers.

1 NCPA is a nonprofit California joint powers agency established in 1968 to construct and operate renewable and low-emitting generating facilities and assist in meeting the wholesale energy needs of its 16 members: the Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, Shasta Lake, and Ukiah, Plumas-Sierra Rural Electric Cooperative, Port of Oakland, San Francisco Bay Area Rapid Transit (BART), and Truckee Donner Public Utility District—collectively serving nearly 700,000 electric consumers in Central and Northern California.

NCPA maintains that amendments governing the use of allowance value should not unduly restrict or limit programs that provide direct benefits to electricity ratepayers.

The PDD2 suggest several revisions and refinements to the initial language set forth in the first discussion draft regarding the *Limitations on the Use of Auction Proceeds and Allowance Value* (section 95892(d)). NCPA offers the following comments on section 95892(d), as well as proposed regulatory text to address the concerns addressed herein. NCPA also incorporates by reference the comments submitted on March 16, 2018 that also provide further information on these various provisions.

Proposed Section 95892(d)(3)

Staff has suggested further clarifying language that provides that the allowance value and auction proceeds from allocated allowances be used exclusively for the *primary* benefit of retail electricity ratepayers. NCPA supports the recognition that programs and measures that are for the primary benefit of electricity ratepayers may also – and ideally *will also* – have secondary benefits for other members of a given community or the state at-large.

In this same section, NCPA had previously urged CARB to recognize that there are likely innumerable legitimate uses of allowance value that are "consistent with the goals of AB 32" and primarily benefit electricity ratepayers that were not enumerated in the list of allowable approaches. For that reason, NCPA urged CARB to specifically recognize "other" allowable uses, which the PDD2 does by the inclusion of new section 95892(d)(3)(C), *Other GHG Emission Reduction Activities*. NCPA supports inclusion of this provision.

Proposed Sections 95892(d)(3)(A)

NCPA appreciates the proposed regulatory text that recognizes the different renewable projects and expenditures, and hopes that CARB staff continues to acknowledge that investments in renewable energy should be encouraged and supported, and are an appropriate use of allowance value. NCPA supports the further proposed changes to clarify the use of allowance value on renewable energy projects, but believes that the suggested text is unduly limiting in requiring expenditures only on projects that meet the provisions of Public Utilities Code section 399.16(b)(1). Instead, any expenditures or investments in renewable energy projects, including investments in resources that meet the statutory requirements of 399.16(b)(2) should be deemed a permissible use of allowance revenues and auction proceeds. NCPA does not support the specific revisions to proposed section 95892(d)(3)(A) that would preclude authorizing expenditures on portfolio content category 2 resources. The regulation should not draw this distinction, and NCPA urges CARB to strike that proposed change.

Proposed Sections 95892(d)(4) and 95892(e)(4)(B)

As noted in NCPA's previous comments, the success of an emissions reduction measure cannot be judged solely by quantifying the reductions. If compared to another measures, one that provides fewer total reductions does not mean the program is less valuable on the whole. For example, a program may provide fewer emissions reductions than another program but may provide those reductions in a disadvantaged or highly-impacted community, clearly meeting the broad objectives of AB 32. Furthermore, programs such as these also meet the objectives of AB617. As such, it is important that the efficacy, value, and legitimacy of any one program or measure not be solely determined based on the total number of emissions reductions that can be readily measured.

NCPA does not dispute that whenever possible, it is appropriate for EDUs to provide a quantitative demonstration of the emissions reductions from any given program or measure funded by allowance value or auction revenues from allocated allowances. However, this will not always be possible. As with the Climate Credit or a non-volumetric return of allowance value to ratepayers, it is not always possible to measure exactly how the proceeds were used to reduce emissions reductions. For programs and measures that provide emissions avoidance, such as educational programs, the metric for evaluating emissions reductions should be based on a *qualitative*, rather than quantitative demonstration. NCPA was encouraged to hear CARB staff's clarification during the June 21 Workshop that education and outreach that can demonstrate GHG reductions are acceptable uses of allowance value, and the further clarification that "demonstration" of emission reductions can be an estimation. Indeed, the latter is critically important – and relevant to all programs – since the final success of a program cannot necessarily be measured at the time the measures is funded.

As discussed during the June 21 Workshop, there are many different kinds of programs and measures that provide both primary benefit to electricity ratepayers and reduced/avoided GHGs, but for which reductions are not readily quantifiable. How can an EDU measure the number of lights switched off or loads of laundry delayed until off-peak hours as a direct result of the school education program on the merits of reduced energy usage and climate change awareness? Yet, programs such as these are vitally important for meeting our current reduction emission reduction targets, and also educating the public on behavioral changes that are imperative to not only meeting but sustaining our environmental and GHG reduction objectives. For programs and projects such as these, EDUs should be able to provide a qualitative rationale that explains the program in detail, as well as the anticipated benefits.

CARB staff has requested specific proposal on "methods to quantify GHG reductions from use of allowance value." (June 21 Staff Presentation, p. 7) Such a specific quantification methodology is necessary or appropriate. It is important that a metric used to measure the *quantity of emissions reduction* from a program not form the basis for determining the *efficacy and overall quality of such a program*. Rather, NCPA suggests the following regulatory text to address this issue.

Proposed Text in the PDD2 for Sections 95892(d)(4) and 95892(e)(4):

Section 95892(d)(4) <u>Electrical distribution utilities must demonstrate quantifiable GHG emissions reductions for each use of allocated allowance auction proceeds undertaken under sections 95892(d)(3)(A)-(C), as described in section 95892(e)(4)(B).</u>

<u>Section 95892(e)(4)</u>
<u>(A) Describing the nature and purpose of each use of allocated allowance auction proceeds and specifying the amount of allocated allowance auction proceeds spent on that use;</u>
<u>(B) Estimating the GHG emission reductions from each use of allocated allowance auction proceeds allowed pursuant to sections 95892(d)(3)(A)-(C); and . . .</u>

Suggested revision Sections 95892(d)(4) and 95892(e)(4):

Section 95892(d)(4) Electrical distribution utilities must demonstrate ~~quantifiable~~ GHG emissions reductions for each use of allocated allowance auction proceeds undertaken under sections 95892(d)(3)(A)-(C), as described in section 95892(e)(4)(B).

Section 95892(e)(4)

(A) Describing the nature and purpose of each use of allocated allowance auction proceeds, **including the targeted recipients of such proceeds,** and specifying the amount of allocated allowance auction proceeds spent on that use;

(B) Estimating the GHG emission reductions from each use of allocated allowance auction proceeds allowed pursuant to sections 95892(d)(3)(A)-(C)**, including a qualitative assessment of the estimated GHG emission reductions, and where applicable, a quantitative assessment of GHG emission reductions**; and . . .

Proposed Section 95892(d)(3)(C)

Staff's desire to prescribe a list of acceptable uses for allowance value must be balanced with the ability of EDUs to implement programs and measures that best meet the needs of their electricity ratepayers, consistent with the objectives of AB 32. EDUs should be encouraged to pursue, develop, and implement innovative programs and measures that meet these objectives, and should not be unduly constrained in doing so. For that reason, NCPA appreciates the inclusion of section 95892(d)(3)(C), *Other GHG Emission Reduction Activities*, as noted above. Since there are myriad programs and measures that can meet the statutory and regulatory mandates that do not fall within the specific categories listed in sections 95892(d)(3)(A), (B) or (D), it is important to include this new provision. To provide even greater clarity, this section should be revised to clarify additional acceptable uses, such as programs and measures that are specifically aimed at GHG avoidance and fire-risk prevention for utility infrastructure.

Meeting the state's clean energy and GHG reduction goals means that we must look not only at reducing emissions from current uses, but also avoiding future emissions. This very principle is at the core of making energy efficiency a priority in the state's energy loading order. Likewise, all emissions that can be reduced from sources such as wildfires, should be pursued and encouraged. To that end, there are several ways that allowance value can be used to implement measures that reduce wildfire threats and their associated adverse impacts on statewide and local GHG emissions. It is imperative that the final regulation recognize this nexus and include allowable uses for certain fire-risk prevention measures.

While utilities have an obligation to maintain safe and reliable facilities, there are challenges associated with climate change that impact an entity's ability to do so. The impacts of climate change on utility infrastructure cannot be ignored, nor can the undisputed benefits of prevention to help ensure that GHG emissions are not the result of wildfires. During the June 21 Workshop, staff observed that climate resiliency is not included as an allowable allowance use because multiple state programs are addressing this. Staff's observation is correct – there are other state programs, including programs funded by the Greenhouse Gas Reduction Fund – that are specifically earmarked for climate adaption and resiliency projects.[2] However, these statewide programs are not necessarily directed to the local projects that provide exclusive primary benefits to an EDU's electricity ratepayers. The fact that climate resiliency is addressed in other state venues and programs is not a valid reason to prohibit the use of allowance value or auction revenues to be used for resiliency and infrastructure hardening purposes that meet the objectives of AB 32 and provide a direct benefit to the electricity customers and community served by the EDU. Indeed, statewide programs aimed at meeting specific statutory objectives will likely not provide the local solutions that an EDU can deliver.

To further clarify the scope of acceptable uses and ensure that section 95892(d)(3)(C) is not inadvertently interpreted as constraining – rather than expanding – the potential uses of allowance value and auction proceeds, NCPA suggests the following revisions:

Proposed Text in the PDD2 for Sections 95892(d)(3)(C):

Section 95892(d)(3)(C) Other GHG Emission Reduction Activities:. Programs or activities other than renewable energy, integration of renewable energy, energy efficiency, or fuel-switching, for which the electrical distribution utility can demonstrate quantifiable GHG emission reductions per section 95892(d)(4). This includes funding:

1. Projects or activities that reduce emissions of sulfur hexafluoride.

Suggested revision to Sections 95892(d)(3)(C):

Section 95892(d)(3)(C) Other GHG Emission Reduction Activities:. Programs or activities other than renewable energy, integration of renewable energy, energy efficiency, or fuel-switching, for which the electrical distribution utility can demonstrate ~~quantifiable~~ GHG emission reductions per section 95892(d)(4). **Other GHG emission reduction activities** ~~This~~ include~~s~~, **but are not limited to** funding:

1. Projects or activities that reduce emissions of sulfur hexafluoride **or other greenhouse gases used in insulated switchgear;**

2. Programs and measures that educate the public on the benefits of reduced electricity consumption, reduced use of fossil fuels, renewable energy, energy efficiency, and greenhouse gas emissions reductions (including environmental benefits and costs of such reductions as compared to fossil fuel usage);

3. Programs and measures that harden utility infrastructure within the EDU's service territory in areas of heightened risk of wildfires.

4. Projects or activities that reduce GHG or other emissions from utility operations.

2 See, for example, Senate Bill 856; http://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB856.

Conclusion

NCPA appreciates the opportunity to provide CARB staff with this feedback on the Second Preliminary Discussion Draft. Please note, however, that while these comments are focused on the proposed revisions to the provisions regarding the use of allowance value, NCPA remains engaged and concerned about the cost containment and related provisions of the Regulation that were flagged in Resolution 17-21 and raised for discussion throughout this pre-rulemaking process. NCPA looks forward to receiving and reviewing proposed regulatory language that would address those provisions in addition to the provisions addressed herein. Please do not hesitate to contact the undersigned or Scott Tomashefsky at 916-781-4291 or scott.tomashefsky@ncpa.com if you have any questions regarding these comments.

Sincerely,

C. Susie Berlin

LAW OFFICES OF SUSIE BERLIN
Attorneys for the **Northern California Power Agency**