Modesto Irrigation District
Water and Power

1231 Eleventh Street
P.O. Box 4060
Modesto, CA 95352
(209) 526-7373

April 28, 2017

Mary Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Modesto Irrigation District's Comments on the Second Cap-and-Trade Rulemaking 15-Day Package

Dear Chairwoman Nichols:

The Modesto Irrigation District (MID) appreciates the opportunity to submit its comments to the California Air Resources Board (ARB) regarding the second set of 15-day changes to the proposed amendments to the California Cap-and-Trade Regulation, posted by ARB on April 13, 2017. The following comments convey MID's support for the allowance allocation schedule and highlight remaining issues that, if addressed by ARB, would strengthen the program and further protect MID's ratepayers from the Cap-and-Trade cost burden. MID is a member of the M-S-R Public Power Agency (M-S-R) and is a participant of the Joint Utilities Group (JUG) and is signatory to the comments submitted by those agencies.

MID supports the electric distribution utility (EDU) allowance allocation methodology developed by ARB staff and urges the Board to approve the proposed allocation schedule. The changes made by ARB staff to the allowance allocation methodology in the second 15-day changes recognize the fact that EDUs comply with additional measures and mandates that guide the electric sector towards reduced emissions and require compliance costs outside of the Cap-and-Trade program. By reducing the Cap-and-Trade cost burden on electric service customers as EDUs continue to invest in renewable energy, the state will be better positioned to affordably meet its emissions reduction goals.

The Energy Imbalance Market "EIM" bridge solution should not be implemented; instead, the ARB should wait until the California Independent System Operator (CAISO) has developed its preferred, vetted solution. The EIM outstanding, or secondary dispatch, emissions contemplated by ARB may become a greater issue as more and more entities participate in the EIM. As such, the undefined, "black box" calculation of total EIM emissions proposed by ARB may have larger impacts on the EIM market and Cap-and-Trade cost containment than stakeholders participating in this rulemaking can reasonably estimate. The CAISO has a robust stakeholder process for considering changes that may impact the energy markets that they operate, and is already working on a solution that would include technical changes to its markets that would help ARB capture the emissions that it seeks to capture in the Cap-and-Trade program while also providing a proper cost signal to better inform real-time economic dispatches of generating resources within the EIM. Furthermore, the interim solution proposed in the Cap-and-Trade changes is not bound by a defined time period. Any potential solution that could become permanent deserves much more study and stakeholder input than has been dedicated to this issue as part of this Cap-and-Trade rulemaking process.

Consignment of unsold allowances to the Allowance Price Containment Reserve (APCR) should be delayed until such allowances remain unsold for much longer than eight consecutive auctions. In our January 20, 2017 comments regarding the first 15-day changes to the proposed Cap-and-Trade amendments, MID suggested that eight consecutive auctions, to be applied retroactively, is not sufficient time to wait before unsold allowances are sent to the APCR. The chilling effect caused by the Chamber of Commerce lawsuit challenging the legitimacy of the Cap-and-Trade program created an environment that destabilizes the operation of the program and any changes to its cost containment provisions in response to such an environment would be premature and detrimental to the program once the cap has declined sufficiently to induce intense competition for allowances. Since the ruling in favor of the Cap-and-Trade program, allowance prices on the secondary market have rebounded and maintained a value higher than the auction floor price. It would be prudent to provide more time to evaluate market performance before eroding the cost containment value of the pool of unsold allowances.

The RPS adjustment could be improved outside of the rulemaking process by adding clarification to the ARB's guidance documentation. Through extensive discussions between affected EDUs and ARB staff regarding the RPS adjustment provision, it has become clear that this complex, important provision of the Cap-and-Trade program would benefit from more detailed and specific direction for how the provision should work. Implementation of the RPS adjustment is a nuanced process that weaves together complex reporting and verification requirements, the technical and regulatory differences between directly delivered electricity and imported specified source electricity, the Renewable Portfolio Standard (RPS) program and its Renewable Energy Credits (RECs), the behavior of third parties in the energy market, electronic tagging of energy purchases, and early-action investments in renewable energy resources by EDUs' ratepayers. With such complexity, it is critical to ensure that reporters and ARB staff are in alignment regarding how the provision should work and how it is implemented. By enhancing the regulatory guidance available through the ARB's Cap-and-Trade website to better describe the RPS adjustment and establish a single, universal understanding of the provision amongst all parties, the issue could be addressed without any further regulatory changes. As an EDU whose cost burden is greatly affected by the performance of the RPS adjustment, MID looks forward to working with ARB staff to perfect the guidance documentation.

Thank you for your consideration of our comments on these important issues.

Sincerely

Gary Soiseth
Regulatory Administrator
Modesto Irrigation District
1231 11th Street
Modesto, CA 95354