M-S-R Public Power Agency
P.O. Box 4060 • Modesto, California 95352 • (209) 526-7373

April 28, 2017

Submitted electronically

Mary Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: **Comments on Second 15-Day Changes to the Cap-and-Trade Program Regulation**

Dear Ms. Nichols:

The M-S-R Public Power Agency (M-S-R)[1] provides these comments to the California Air Resources Board (CARB) on the Second 15-Day Changes to the proposed amendments to the Cap-and-Trade Program Regulation, released on April 13, 2017. Each of M-S-R's member agencies are electrical distribution utilities (EDU)[2] and covered entities under the Cap-and-Trade Program Regulation (Program).

The revised proposal for allocation of allowances to the EDUs for the protection of their ratepayers better reflects the EDU cost burden and should be adopted. The revised proposal for EDU allowance allocation correctly recognizes the unique role of the electric sector and electric utilities in meeting the State's climate objectives. In light of the existing measures and mandates that result in GHG reductions from EDUs outside of the Cap-and-Trade Program, it is appropriate that the EDUs not also be subject to an additional restriction by applying the cap adjustment factor to the allowance allocation. Similarly, the revised basis for determining zero-GHG resources based on an EDU's renewable portfolio standard (RPS) compliance obligation recognizes the imperfect alignment between the Cap-and-Trade program and the RPS program. M-S-R appreciates staff's recognition of these important factors and urges the Board to adopt the revised EDU allocation proposal set forth in the Second 15-Day Changes.

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.

CARB can do more to ensure alignment between the Cap-and-Trade Program and the state's renewable portfolio standards (RPS) program. The RPS program and application of the RPS adjustment found in section 95852(b)(4) should not be inexorably linked with the discussion of EDU allowance allocations, but rather, be part of a broader discussion to facilitate a greater understanding of the interactions between these two very important programs. To that end, independent of the current regulatory amendments, M-S-R urges the Board to direct staff to work with stakeholders on revisions to the regulatory guidance documents addressing application of the RPS adjustment. CARB staff and stakeholders have had multiple discussions regarding the RPS adjustment over the course of this rulemaking proceeding. During that time, it has become clear that a common understanding of all of the elements could be more clearly articulated in the regulatory guidance that the agency provides on its Cap-and-Trade Program homepage. Since such guidance is not intended to alter the regulatory requirement, it can be prepared outside of a regulatory proceeding. At the same time, revising the current guidance consistent with the outcome of the various stakeholder discussions would go far to remove confusion on the part of both compliance entities and staff in application of the important RPS adjustment moving forward.

CARB must continue to work with stakeholders and its sister agencies to address the impacts of electrification on the EDUs. The most obvious impact from electrification – and the one that was specifically recognized by the Legislature as warranting consideration of additional allowance allocations – comes from transformation in the transportation sector. However, the State's continued move towards greater electrification of the building sector and changes in urban planning that reduce use of natural gas will also increase the demand for electricity. The Notice accompanying the Second 15-Day Changes notes that "methods for adjusting EDU allocation based on increased electrification, in particular the transportation sector, *may* also be considered in a future rulemaking." (Notice at p. 13, emphasis added) Consideration of electrification impacts on the electric sector should not be optional. M-S-R urges the Board to explicitly recognize the importance of this issue and direct that a subsequent rulemaking, to be initiated prior to the end of 2017, address methods for adjusting EDU allowance allocation based on increased electrification. It is imperative that electrification be addressed as soon as possible, and that CARB collaborate closely with the California Energy Commission and California Public Utilities Commission on this issue.

EIM transactions are properly excluded from the definition of resource shuffling. M-S-R appreciates the proposal in the revised 15-day Changes to retain the Energy Imbalance Market (EIM) exception from the definition of resource shuffling found in the current regulation. The original change to remove this exception would have caused greater uncertainty for market participants while providing no greater accuracy in accounting for GHG emissions resulting from the EIM. M-S-R also believes that any interim solutions or proposed temporary changes to the Cap-and-Trade program to address accounting for emissions in the EIM would similarly result in uncertainties in the market. **Instead of adopting an interim revision in the form of the "bridge solution," CARB should not make any amendments to the Cap-and-Trade program until the California Independent System Operator (CAISO) has completed its**

stakeholder process to address EIM GHG accounting. The proposed "interim solution" is not confined to a defined time period, nor does it account for the potential to adversely impact the EIM. Further, there will likely be market disruptions and uncertainty associated with the period of overlap between the time when the CAISO completes its process and approves tariff amendments that implement the new accounting mechanism and when a new CARB rulemaking is completed to strike the interim solution.[3]

Conclusion. The revised EDU allowance allocation proposal set forth in the Second 15-Day Changes better reflects the cost burden associated with the program for EDUs, and provides more protection for California's electricity customers, than the original proposal. As more fully addressed herein, M-S-R urges the Board to adopt the revised allocation proposal set forth in the April 13, 2017 Second 15-Day Changes. The Board should also explicitly direct that a subsequent rulemaking be opened before the end of 2017 to address allocation of allowances to EDUs as a result of increased electrification, and for staff to work with stakeholders on revising the regulatory guidance documents related to the RPS adjustment. CARB should also refrain from making any changes to the existing regulatory language accounting for GHG emissions in the EIM until the CAISO stakeholder process has been completed.

Respectfully submitted,

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

3 Recent discussions at the Western Renewable Energy Generation Information System (WREGIS) regarding carbon attributes associated with transactions in the EIM may further complicate the issue of carbon accounting and application of an interim solution developed outside of the CAISO's stakeholder process.