

October 21, 2015

Ms. Rajinder Sahota

Assistant Division Chief – Climate Program

California Air Resources Board

1001 I Street

Sacramento CA, 95814

***Filed Electronically***

*RE:* *Modesto Irrigation District and Turlock Irrigation District’s Comments from the October 2, 2015 Workshop Regarding Amendments to the California Cap-and-Trade Program – Renewable Portfolio Standard (RPS) Adjustment*

Dear Ms. Sahota:

Modesto Irrigation District (MID) and Turlock Irrigation District (TID) are concerned with the California Air Resources Board’s (ARB) proposed amendments, which would remove the RPS Adjustment from the Cap-and-Trade Regulation in the existing program. The RPS Adjustment is an integral part of Cap-and-Trade that reflects a core State policy requiring extensive use of renewable resources, and is overall a critical element in the renewable energy markets. These comments focus on our recommended revisions to the Renewable Portfolio Standard (RPS) adjustment sections of the CAP-and-Trade Program and Mandatory Reporting Regulation (MRR).

Removal of this regulatory mechanism would significantly impact and very likely escalate the costs of importing out-of-state renewables. Furthermore, it would penalize utilities like MID and TID –and our ratepayers – who made early investments in these preferred resources and formulated subsequent energy portfolio decisions consistent with the State’s renewable program. As publicly owned utilities (POUs), our customers will ultimately bear the negative financial and resulting rate impacts due to such a regulatory rule change.

One of the goals to California’s RPS program is to reduce greenhouse gas (GHG) emissions through cost-effective procurement of zero emission renewable resources. The RPS law allows utilities to procure renewable energy irrespective of the location of production (i.e., whether from an in-state or out-of-state renewable resource).

Due to transmission limitations, the intermittent nature of some renewable resources, and complexities around transmission scheduling, both past and current RPS laws allow the power from out-of-state resources to be “firmed and shaped” for delivery at a time other than when the generation occurs. The total volume of qualified RPS procurement is limited by the actual metered generation of the facility. The firming and shaping provisions provide a cost-effective means to procure zero emissions energy from geographically disparate resources. This is an important component of the existing RPS law that California’s utilities have relied upon in developing their RPS procurement plans since the adoption of the mandatory RPS law in 2002.

MID and TID have made early investments in a low-carbon future by entering into long-term contracts and ownership structures with out-of-state renewable resources using the firming and shaping mechanism. Many of these investments were made at a time long before it was known whether, if at all, California would develop a cap-and-trade program, much less whether such a program would apply to out-of-state zero emissions resources.

Early in the development of the Cap-and-Trade Program the ARB wisely addressed these concerns by creating the RPS Adjustment mechanism.[[1]](#footnote-1) The inclusion of the RPS Adjustment sent a clear signal to the electricity sector that existing investments in out-of-state, zero emissions resources would still retain their value as zero-emission assets, provided they meet the requirements set forth in Section 95852(b)(4) of the Cap-and-Trade Regulation.

The inclusion of this provision helped preserve the long-term investments of POUs and also facilitated new investments in renewable energy within the Western Interconnection. The RPS Adjustment enables a broader market for zero emission energy by allowing out-of-state renewable energy resources to compete on a level playing field with in-state resources. This level of west-wide competition advances the goal of creating and integrating market interests to reduce regional GHG emissions.

By furthering the regional renewable energy markets, the RPS Adjustment is a central component that plays an important role in achieving the State and region’s GHG emission reduction goals. We believe that removal of the RPS Adjustment from the Cap-and-Trade rules will drastically undermine the value long-term investments in out-of-state renewable energy, negatively impact utility ratepayers throughout California and substantially limit the ability to diversify access to resources that would further the ARB’s GHG reduction policies.

The primary challenge to implementation of the RPS Adjustment is the direct delivery prohibition, which is intended to prevent double counting of an out-of-state resource’s emission attributes due to more than one entity claiming credit for the same emissions reduction. MID and TID understand, appreciate and support that the ARB must protect the integrity of the Cap-and-Trade program and prevent double counting of emissions reductions; however, it’s possible to minimize or eliminate the risk of double counting and keep the RPS Adjustment in place. Under current law, null power [i.e., energy without the renewable energy credits (RECs)] can be transacted and imported to California and can be claimed as a zero emissions resource even though the importer doesn’t have title to the RECs.

By adjusting the Cap-and-Trade and Mandatory Reporting Regulations to decouple null power from its associated RECs and align the regulations with REC ownership only, verification that only one entity claims any one REC will be much simpler and more accurate because assessing direct deliveries will no longer be required. Such regulation revisions would avoid harm to the proactive and prudent long-term investments made by California utilities in out-of-state renewables.

This recommendation addresses the ARB’s concerns with respect to the direct delivery and would eliminate the potential for double counting. As we’ve noted, maintaining the RPS Adjustment is critical for publicly owned utilities that have made early, long-term investments in out-of-state renewable resources and prudent subsequent portfolio decisions based in large part on those early actions. The RPS Adjustment also plays a critical role in maintaining a robust regional renewable energy market and is therefore important to advancing the State’s GHG objectives.

As such, MID and TID urge the ARB hold a series of workshops to more fully explore the array of possible solutions. We look forward to working with the ARB to address these issues.

Sincerely,



Greg Salyer Casey Hashimoto

Interim General Manager General Manager

Modesto Irrigation District Turlock Irrigation District

1. See October 2011 Final Statement of Reasons at p. 57, available at: http://www.arb.ca.gov/regact/2010/ capandtrade10/fsor.pdf [↑](#footnote-ref-1)