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Submitted electronically

October 27, 2017

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 October 12 Staff Workshop on Cap-and-Trade Program Regulation*

Dear Ms. Sahota:

The Northern California Power Agency[1] (NCPA) appreciates the opportunity to provide the California Air Resources Board (CARB) staff with these comments in response to the October 12, 2017 *Cap-and-Trade Regulation Workshop*. During the workshop, Staff reviewed several proposed amendments to the cap-and-trade regulation that were either previewed in the Board Resolution 17-21 or mandated by Assembly Bill (AB) 398. NCPA understands that Staff is in the very preliminary stages of developing the proposed amendments to the regulation and the manner in which program changes will be implemented. As such, NCPA offers the following thoughts on potential amendments to help frame the discussion moving forward and for further consideration throughout this rulemaking process.

I. COMMENTS ON STAFF PRESENTATION

A. Quantification of Transportation Electrification Impacts

There is no doubt that significant transformation of the transportation sector will be necessary to meet California's environmental objectives, and that electrification of the sector will be a pivotal part of that transformation. It is equally clear that this transformation will have an impact on the electricity sector, and as such, on electricity customers across the State. As an essential element of the State's long-term greenhouse gas (GHG) emissions reduction strategy, the impacts of transportation electrification on the electric sector emissions must be addressed as soon as possible. Staff's recognition of the need to "… evaluate appropriate quantification methodologies for additional electrical distribution utility allocation that would provide ratepayer

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.

benefit for the Cap-and-Trade Program cost burden associated with transportation electrification load growth (in recognition of the requirements of SB 350)"[2] is critically important to ensure that electricity ratepayers are protected from undue impacts of this transformation. Addressing the net increase in electricity sector emissions associated with transportation electrification is essential for EDUs whose electricity customers will bear the compliance costs for such increased emissions.

Not only is it important to address this issue for purposes of upcoming regulatory amendments, it is important that the electricity and transportation markets receive a clear signal regarding the manner in which electricity ratepayers will be protected from undue rate increases. This market signal will facilitate and accelerate the transformation by reducing the uncertainties currently surrounding this matter. NCPA appreciates that this is an issue CARB will be addressing in the upcoming rulemaking, and urges staff to convene workshops and stakeholder discussions on this matter right away.

B. Consignment of Allowances

Resolution 17-21 and the staff presentation from the October 12 workshop raise the issue of the potential to change the rules associated with the consignment of allowances. This issue was also referenced during the last rulemaking proceeding. Despite these repeated references to the potential rule changes that would "require all electrical distribution utilities to consign all allocated allowances to auction,"[3] a reasoned basis for consideration of such a change has not been presented. In 2011, the Board approved the current consignment rules based on well-reasoned rationale. Those rules distinguished between investor owned utilities and allocations to publicly owned utilities and electric cooperatives when defining the manner in which allocated allowances would be monetized. Regarding this distinction, CARB noted that all entities should have a reasonable means to comply with the cap-and-trade regulation in a manner that accommodates their respective business models and compliance strategies, and that imposing auction design features on vertically integrated POUs is an unnecessary additional step that does not provide any value to POU electric ratepayers, nor to California overall.[4]

In explaining the different provisions, CARB also noted that the distinction was justified because "POUs and IOUs operate differently with respect to electricity generation. POUs generally own and operate generation facilities which they use to provide electricity directly to their end-use customers. In order to minimize the administrative costs of the program to the POUs, and recognizing that directly allocating the allowances to the POUs does not distort their economic incentive to make cost-effective emissions reductions, we determined that it would be prudent to allow POUs to surrender directly allocated allowances without participating in the auction process."[5]

The rationale supporting the different rules for consignment of allowances are still valid at this time and the need for the distinction remains unchanged. No justification has been presented to warrant a change, nor has any information been provided that would indicate how any such changes would provide additional value or benefits to electricity customers of publicly owned utilities and electrical cooperatives. In the absence of changed circumstances or evidence

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2 Board Resolution 17-21; see also, 2017 FSOR, pp. 57-58.

3 Board Resolution 17-21.

4 2011 Cap-and-Trade Program Amendments, Final Statement of Reasons (2011 FSOR), pp. 560-561.

5 2011 FSOR, pp. 564-565.

that the current rules are harming ratepayers or impeding the ability to maximize the use of allowance value for the benefit of electricity customers, the existing consignment provisions should be retained.

C. Restrictions on the Use of Allowance Value

During the workshop, staff noted that the agency will "continue to explore how the value allocated to EDUs can best be utilized to encourage emissions reductions and protect ratepayers."[6] Similar to the proposal to possibly change the current rules regarding consignment of allowances, Resolution 17-21 and the staff presentation reference the potential for changed rules regarding the use of allowance value, but do not provide additional information about what kind of changes may be warranted or why. While it is critically important that electric distribution utilities (EDUs) ensure that the use of allowance value is consistent with meeting the goals of AB 32, EDUs' ability to use those funds in the best interests of *their particular* electricity customers is imperative and flexibility is key to ensuring the greatest benefit to ratepayers.[7]

The importance of flexibility and returning the value of allocated allowances in a manner that benefits EDU customers was fully considered and recognized when the program first began. In 2011, staff recognized the inherent need for this flexibility. In discussing the potential for technology-specific uses for the allowance value, staff noted that various technologies "may have a relative value for some ratepayers, but may be more costly for others as an emerging technology. As a result, it will be *important that utilities work with the CPUC and local governing boards to* ***determine what is best for their ratepayers***.[8] Staff went on to note that "the guiding principal of benefitting the ratepayer according to AB 32 goals is appropriate. The CPUC and local governments will continue to have oversight on how auction proceeds allocated to electrical distribution utilities should be used . . . This approach provides **flexibility to the utilities to meet the needs of their respective ratepayers.**"[9]

For the local governing boards that have regulatory oversight of their electric utilities, these principles remain just as important today. NCPA looks forward to working with staff on this issue, and in particular learning more about what kinds of expenditures staff is considering in the context of such potential changes. Without more information from staff, it is not possible to provide specific direction on this issue, except to note that CARB's essential findings in 2011 remain relevant today: "We believe it is important that ratepayers are not unduly affected by this regulation. We modified the regulation to ensure that the CPUC and the *POU governing boards have adequate flexibility in designing a mechanism to return allowance value to ratepayers*."[10]

D. Evaluating the 2021-2030 Cap

AB 398 directs CARB to "evaluate and address concerns related to overallocation in the state board's determination of the number of available allowances for years 2021 to 2030, inclusive, as appropriate."[11] Unfortunately, the terminology used implies that there is already a

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6 October 12 Workshop Presentation, p. 13.

7 2011 FSOR, p. 1145.

8 2011 FSOR, p. 1145, emphasis added.

9 2011 FSOR, p. 1156, emphasis added.

10 2011 FSOR, p. 1156, emphasis added.

11 Health & Safety Code section 38562(c)(2)(D).

perception that the statewide cap is too high. The cap is not overallocated post 2020. As noted in the 2017 Cap-and-Trade Program Amendments Final Statement of Reasons (2017 FSOR), in setting the 2021 cap, staff balanced the needs of providing the necessary environmental benefits and containing Program costs," and the "proposed framework of setting the post-2020 caps in line with the current 2020 cap, with no step-down to the projected emissions level, combined with allocating the 52.4 million "wedge" allowances balances concerns about budget over-allocation and cost-containment in a way that is similar to the balance achieved while establishing the original 2013 to 2020 annual caps."[12]

As evidenced by the data used by CARB to set the allowance cap, the number of available allowances for 2021-2030 is not "overallocated." The extent to which the State has been successful in meeting current GHG reduction targets should not be viewed as a sign that such reductions are easily obtained or that the current trajectory can be maintained without significant cost impacts for California's consumers and electricity ratepayers. Instead, the current success should be taken as a sign that stakeholders subject to cap-and-trade program are moving forward ahead of what was expected.

State energy policies designed to reduce GHG emissions have been accelerated since the initial cap was originally authorized. The electricity sector has borne a significant share of those accelerated reduction mandates, and has made considerable investments in emissions reductions. At the same time EDUs were complying with increased mandates for renewable energy and energy efficiency – to name a few, the state was experiencing an economic downturn that was not anticipated, neither was the increase in some sectors of the economy or the growth of building and transportation electrification. All of these factors have a bearing on the future expected emissions and investments already expended to achieve them. Ensuring the appropriate cap for the 2021-2030 period is complex, as evidence by the broader challenges that have been telegraphed by the CAISO regarding the operation of the electric grid with increasing quantities of renewable energy and changes to the dispatch of gas generation facilities, and the multiple related and overlapping issues detailed in the California Energy Commission's 2017 Draft Integrated Energy Policy Report. As such, it is premature to make any assumptions that the 2021-2030 cap is overallocated.

E. Cost Containment

As previewed in Staff's October 12 presentation, AB 398 includes several provisions designed to ensure market stability and protect compliance entities from unanticipated or unaccepted market vagaries. For EDUs such as NCPA's members, protecting electricity customers from these unforeseen circumstances and avoiding disruptions in the safe and reliable provision of electricity are critical. Cost containment tools are important to ensure that the cap-and-trade program provides incentives for reducing GHG emissions while protecting consumers from extremely high (out-of-control) carbon prices. While the market has not seen any such activities to date, that good fortune should not be taken for granted, as evidenced by myriad economic studies.

The ability to bank unused allowances serves the dual purposes of encouraging compliance entities to seek out the greatest emissions reductions in the most cost-effective manner, even if they are in possession of allowances that could be surrendered to meet their compliance obligation, and to protect covered entities from the possibility of reasonably priced

12 2017 FSOR, pp. 521, 522.

allowances being unavailable in the future. The latter eventuality also highlights the importance of, and need for, an adequate allowance price containment reserve and a reasonable and realistic price ceiling. Likewise, access to offsets and expanded opportunities for linkage with other jurisdictions are going to be important elements of the program moving forward. Cost containment provisions in the current regulation have worked well so far, and the various cost containment "refinements" called for in AB 398 should further protect consumers. NCPA looks forward to continuing to work with CARB and other stakeholders on these development and implementation of important elements of the cap-and-trade program.

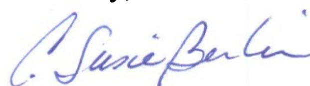
F. Recognition of Potential Emissions Increases from Expansion of Zero-Net Energy Objectives.

The State's aggressive clean-energy and environmental objectives will provide untold benefits to California's residents and businesses. They will also continue to put even greater pressure on the electric sector as many of those objectives are met through increased electrification of not only the State's roads, rails, and ports, but buildings and communities, as well. These challenges create the potential for conflicting policy objectives that can work against attainment of the final goal of reduced statewide emissions. This issue is one that may seem more relevant to the Scoping Plan discussion, does have an immediate impact on the cap-and-trade program for purposes of ensuring that electricity customers are not bearing a disproportionate cost burden associated with meeting these broad policy goals. NCPA urges staff to include within the scope of the upcoming rulemaking consideration of the impacts that increased electrification of the building sector and industry will have on the electricity sector GHG emissions, and address any impacts on the State's electricity ratepayers in the upcoming regulatory amendments.

II. CONCLUSION

Properly addressing the program changes contemplated by AB 398 and Board Resolution 17-21, as well as broader policy objectives that encourage expanded statewide electrification, will be critically important to ensuring that the cap-and-trade program continues to operate in the manner that ensures statewide GHG reductions in a cost-effective and technically feasible manner. NCPA appreciates the opportunity to provide these comments on the first workshop and looks forward to working with other stakeholders and CARB staff during this process. 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,



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