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January 21, 2016

Ms. Rajinder Sahota, Chief
Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Ms. Sahota,

Subject: Comments on the Renewable Portfolio Standard (RPS) Adjustment

Thank you for holding the public workshop on December 14, 2015, to discuss implementation of the Clean Power Plan, potential amendments to the Cap-and-Trade regulation, and SB 350 targets.

The Los Angeles Department of Water and Power (LADWP) appreciates the opportunity to provide input on these important matters affecting California electric utilities. We submitted our comments regarding implementation of the Clean Power Plan in a separate letter. This letter is focused solely on comments on the RPS Adjustment.

The RPS Adjustment is essential to minimize compliance costs for California electric utilities. LADWP urges the California Air Resources Board (ARB) to retain and enhance the RPS Adjustment. LADWP understands that ARB staff seeks to eliminate double counting of the zero emission attribute for imported renewable energy, and reduce the administrative burden on ARB staff to perform quality control on the reported data. LADWP believes this can be accomplished with a few simple changes to the Cap-and-Trade and mandatory reporting regulations.

Description of the problem

The potential for double counting occurs when the Renewable Energy Credits (RECs) are unbundled from the physical electricity, then the electricity is sold off as null power. This is done for operational reasons – for example, electric utilities may not be able to use renewable electricity directly from a wind farm to serve their load due to the variability, so the electricity must be firming and/or shaped to smooth it out. When the electricity is firming / shaped, the electricity produced by the wind farm is absorbed into the local balancing authority, and substitute firm electricity is delivered to the electric utility with the RECs as RPS compliant “Bucket 2” substitute electricity. The RPS compliant “Bucket 2” substitute electricity qualifies for the RPS Adjustment credit to offset the Greenhouse Gas (GHG) emissions reported for the substitute electricity.

If a marketer buys the null power (renewable electricity without the RECs) from the wind farm and imports it directly into California, ARB has been requiring that imported null power be reported as specified with a zero emission factor even though the RECs are missing. However, the electric utility that imported the RPS compliant “Bucket 2” substitute electricity with the RECs does not know what happened to the original electricity. If the marketer does not tell the electric utility that the null power was directly imported into California and claimed as specified with a zero emission factor, then both parties may end up claiming the zero emission attribute -- one as a specified import, the other as the RPS Adjustment credit.

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Under the California RPS program, the REC carries the zero emission attribute, not the electricity. Copied below for reference is the definition of a REC from the California Public Utilities Code §399.12 (h):

- (1) *"Renewable energy credit" means a certificate of proof associated with the generation of electricity from an eligible renewable energy resource, issued through the accounting system established by the Energy Commission pursuant to Section 399.25, that one unit of electricity was generated and delivered by an eligible renewable energy resource.*
- (2) *"Renewable energy credit" includes all renewable and environmental attributes associated with the production of electricity from the eligible renewable energy resource, except for an emissions reduction credit issued pursuant to Section 40709 of the Health and Safety Code and any credits or payments associated with the reduction of solid waste and treatment benefits created by the utilization of biomass or biogas fuels.*

To avoid double counting of the zero emission attribute, it is essential to recognize that the REC carries the environmental attributes of electricity produced by a renewable generating facility, and that null power must be reported as unspecified power.

Discussion

AB 32 directed ARB to design the regulations to reduce GHG emissions "...in a manner that is equitable, seeks to minimize costs and maximize the total benefits to California..." The RPS Adjustment was included in the Cap-and-Trade and mandatory reporting regulations to minimize the cost impact to California electric utilities and their customers from having to comply with multiple regulations aimed at reducing GHG emissions, including California's RPS program and the Cap-and-Trade program. The RPS Adjustment is essential to minimize costs and maximize the GHG emission reduction benefits from renewable energy; therefore the RPS Adjustment must be retained as part of the Cap-and-Trade program.

California's RPS program, which requires all retail sellers of electricity in California to procure renewable electricity equal to 20 percent of retail electricity sales for years 2011-2015 then increasing to 33 percent by year 2020, contributes significant reductions towards the state's GHG emission reduction goal. Since it is not always feasible to import renewable electricity directly from variable renewable generating resources to serve customers in California, the RPS program recognizes firmed / shaped renewable electricity as RPS eligible.

ARB created the RPS Adjustment as a credit or adjustment to the Cap-and-Trade compliance obligation that applies to imported RPS compliant "Bucket 2" substitute electricity. The RPS Adjustment credit is an adjustment to the Cap-and-Trade compliance obligation only; it does not alter the amount of GHG emissions reported under the mandatory reporting regulation for GHG emissions accounting purposes. There seemed to be a little confusion about this at the workshop.

The RPS Adjustment credit is an important cost mitigation element of the Cap-and-Trade program. If the RPS Adjustment credit were eliminated, California electric utilities and their customers would have to pay tens of millions of dollars per year in Cap & Trade compliance costs for RPS compliant firm/shouldered renewable electricity. This Cap-and-Trade compliance cost would be in addition to the cost of purchasing and importing the RPS compliant "Bucket 2" substitute electricity to comply with the RPS requirements. The RPS Adjustment credit was created to avoid this additional cost impact.

The cost mitigation value of the RPS Adjustment credit becomes increasingly important as the price of Cap-and-Trade GHG emission allowances escalates each year, and as California's electric utilities must import more and more renewable electricity to comply with California's 33 percent and 50 percent RPS targets.

Therefore, the RPS Adjustment credit should be retained and enhanced to fully offset the Cap-and-Trade compliance obligation on imported RPS compliant firm / shouldered renewable electricity in order to minimize cost impacts to California electric utilities and their customers.

Proposed Solution

To eliminate the potential for double counting, LADWP recommends the changes described in items 1 and 2 below. In addition, items 3, 4 and 5 below summarize the proposed changes LADWP recommended in our October 19, 2015 comment letter to clarify and enhance the RPS Adjustment.

1. Enforce the existing requirements in section 95852(b)(3) of the Cap-and-Trade regulation. If RECs were created for the electricity, the RECs must be reported and verified in order to claim a compliance obligation based on a specified source emission factor. Without the RECs, imported null power does not qualify to be reported with a zero emission factor because it does not meet all the criteria in section 95852(b)(3).

Cap and Trade Regulation section 95852(b)(3)

The following criteria must be met for electricity importers to claim a compliance obligation for delivered electricity based on a specified source emission factor or asset controlling supplier emission factor. (emphasis added)

(A) Electricity deliveries must be reported to ARB and emissions must be calculated pursuant to MRR section 95111.

(B) The electricity importer must be the facility operator or have right of ownership or a written power contract, as defined in MRR section 95102(a), to the amount of electricity claimed and generated by the facility or unit claimed;

(C) The electricity must be directly delivered, as defined in MRR section 95102(a), to the California grid; and

(D) If RECs were created for the electricity generated and reported pursuant to MRR, then the REC serial numbers must be reported and verified pursuant to MRR. (emphasis added)

2. Direct delivery is only one of four criteria in section 95852(b)(3) that must be met in order to claim a specified source emission factor for imported electricity. Therefore, section 95852(b)(4)(D) should be revised to state that "No RPS Adjustment may be claimed for the portion of electricity produced by an eligible renewable energy resource that meets all of the criteria for specified sources in section 95852(b)(3)".

Cap and Trade Regulation section 95852(b)(4)

RPS adjustment. *Electricity procured from an eligible renewable energy resource reported pursuant to MRR must meet the following conditions to be included in the calculation of the RPS adjustment:*

(A) *The electricity importer must have:*

1. *Ownership or contract rights to procure the electricity and the associated RECs generated by the eligible renewable energy resource; or*

2. *A contract with an entity subject to the California RPS that has ownership or contract rights to the electricity and associated RECs generated by the eligible renewable energy resource, as verified pursuant to MRR.*

(B) *The RECs associated with the electricity claimed for the RPS adjustment must be placed in the retirement subaccount of the entity subject to the California RPS, and party to the contract in 95852(b)(4)(A), in the accounting system established by the CEC pursuant to PUC 399.25, and designated as retired for the purpose of compliance with the California RPS program within 45 days of the reporting deadline specified in section 95111(g) of MRR for the year for which the RPS adjustment is claimed.*

(C) *The quantity of emissions included in the RPS adjustment is calculated as the product of the default emission factor for unspecified sources, pursuant to MRR, and the reported electricity generated (MWh) that meets the requirements of this section, 95852(b)(4).*

(D) *No RPS adjustment may be claimed for the portion of electricity produced by an eligible renewable energy resource that meets all of the criteria for specified sources in section 95852(b)(3) when its electricity is directly delivered.*

(E) *No RPS adjustment may be claimed for electricity generated by an eligible renewable energy resource in a jurisdiction where a GHG emissions trading system has been approved for linkage by the Board pursuant to subarticle 12.*

(F) *Only RECs representing electricity generated after 12/31/2012 are eligible to be used towards the RPS adjustment.*

3. Currently, the RPS Adjustment credit does not fully offset the Cap-and-Trade compliance obligation on the GHG emissions reported for imported RPS compliant "Bucket 2" substitute electricity -- there is a two percent deficit. The RPS Adjustment includes credit for the unspecified electricity emission factor but does not include credit for the two percent default transmission loss factor that is applied when reporting GHG emissions for the substitute electricity. The RPS Adjustment should include credit for the two percent default transmission loss factor so that both directly delivered renewable electricity and RPS compliant firmed/shaped renewable electricity are treated equally under the Cap-and-Trade program.

To accomplish this, LADWP recommends the following amendments to the Cap-and-Trade and the mandatory reporting regulations:

Cap and Trade Regulation section 95852(b)(4)(C)

The quantity of emissions included in the RPS adjustment is calculated as the product of the default emission factor for unspecified sources, and the transmission loss correction factor for unspecified sources pursuant to MRR, and the reported electricity generated (MWh) that meets the requirements of this section, 95852(b)(4).

Mandatory Reporting Regulation section 95111(b)(5)

$CO_2e_{RPS_adjust}$ = Sum of CO2 equivalent mass emissions adjustment is calculated using the following equation for electricity generated by each eligible renewable energy resource located outside the state of California and registered with ARB by the reporting entity pursuant to section 95111(g)(1), but not directly delivered as defined pursuant to section 95102(a). Electricity included in the RPS adjustment must meet the requirements pursuant to section 95852(b)(4) of the cap-and-trade regulation (MT of CO₂e).

$$CO_2e_{RPS_adjust} = MWh_{RPS} \times TL \times EF_{unsp} \text{ (MTCO}_2\text{e / MWh)}$$

Where:

MWh_{RPS} = Sum of MWh generated by each eligible renewable energy resource located outside of the state of California, registered with ARB pursuant to section 95111(g)(1), and meeting requirements pursuant to section 95852(b)(4) of the cap-and-trade regulation.

TL = Transmission loss correction factor for unspecified sources of 1.02 as defined in section 95111(b)(1).

EF_{unsp} = Default emission factor for unspecified sources as defined in section 95111(b)(1) (MT CO₂e/MWh)

4. The deadline to retire RECs for the RPS Adjustment needs to be clarified.

Cap and Trade Regulation section 95852(b)(4)(B)

The RECs associated with the electricity claimed for the RPS adjustment must be placed in the retirement subaccount of the entity subject to the California RPS, and party to the contract in 95852(b)(4)(A), in the accounting system established by the CEC pursuant to PUC 399.25, and designated as retired for the purpose of compliance with the California RPS program within no later than 45 days following of the reporting deadline specified in section 95111(g) of MRR for the year for which the RPS adjustment is claimed.

5. There should be a credit or adjustment to the Cap-and-Trade compliance obligation for firmed / shaped renewable electricity imported to satisfy the needs of customers who participate in voluntary green power programs. Some electric utilities offer voluntary green power programs for customers that wish to buy additional renewable electricity above and beyond the amount required by the RPS program. For example, California electric utilities are currently required to procure renewable electricity equal to 25 percent of their regular customer's consumption, but green power program customers may elect to pay extra to have their utility buy renewable electricity equal to 50 percent or 100 percent of their consumption. Unfortunately, this additional imported renewable electricity does not qualify for the RPS Adjustment because the RECs are not retired for RPS compliance. Voluntary green power programs help to reduce California's GHG emissions by displacing electricity produced by fossil-fueled power plants with electricity from renewable generating resources. However, having to pay the Cap-and-Trade compliance obligation on top of the cost to buy and import the additional renewable electricity is a disincentive for these voluntary programs. LADWP requests that a credit similar to the RPS adjustment, applicable to firmed / shaped renewable electricity imported by electric utilities on behalf of their voluntary green power program customers, be added to the Cap-and-Trade regulation. Doing so would provide equal treatment for all imported renewable electricity, regardless of whether it was purchased for RPS compliance or to satisfy the needs of customers who voluntarily pay for additional renewable electricity above and beyond what is required by the RPS.

Thank you for your consideration of these comments. If you have any questions or would like to discuss these comments with us, please contact Ms. Jodean Giese at (213) 367-0409.

Sincerely,



Mark J. Sedlacek
Director of Environmental Affairs

CP:dms

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