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November 4, 2016 **|** Submitted Electronically

Ms. Rajinder Sahota
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: SCPPA Comments on October 21 Mandatory Reporting and Cap-and-Trade Program Workshop

Thank you for the opportunity to provide comments on the October 21 Staff workshop regarding Mandatory Greenhouse Gas (GHG) Reporting and Cap-and-Trade Program amendments.

The Southern California Public Power Authority (SCPPA) is a joint powers agency whose members include the cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, and Vernon, and the Imperial Irrigation District. Our Members collectively serve nearly five million people throughout Southern California. Each Member owns and operates a publicly-owned electric utility governed by a board of local officials who are directly accountable to their constituents.

Each SCPPA Member has a duty to provide reliable power to their customers, many of whom are located in disadvantaged communities, at affordable rates while also complying with all applicable local, regional, state, and federal environmental and energy regulations. Currently, SCPPA and our Members own, operate, or have binding long-term procurement arrangements with 37 generation and natural gas projects and three transmission projects, generating power in California or importing from Arizona, New Mexico, Utah, Oregon, Washington, Nevada, Texas, and Wyoming. This is in addition to individual, Member-owned or contracted and operated transmission, generation, and natural gas projects throughout the Western United States. All are funded through municipally-backed financing mechanisms. SCPPA, its Members, and their customers will be significantly affected by the proposed regulatory amendments in California and throughout the West given anticipated market impacts across balancing authority areas – some of which are controlled by SCPPA Members.

Support for Continuation of the Cap-and-Trade Program

Many of our comments provided herein and in previous letters address the policy design and implementation details of the Cap-and-Trade Program and Mandatory Reporting Regulations. In light of recent stakeholder comments at both the September Air Resources Board Meeting and the recent Staff workshop, we are compelled to take a step back and reaffirm our support for the continuation of the Cap-and-Trade Program as the most workable strategy to achieve the State's aggressive long-term GHG goals. We believe that this nationally and internally recognized market-based Program is the most cost-effective means of achieving GHG emissions reductions throughout the state. **The Program as currently constructed allows our Members to pass the value of allowance allocations directly to their customers. These benefits flow through to *all* of our Members' customers, including those in disadvantaged communities. A shift away from the Program would very likely result in increased costs for all and may have little impact in addressing concerns with localized air pollutants. This would not be in the interest of utility customers or the state as a whole.**

Moreover, the Cap-and-Trade Program and Mandatory Reporting Regulations (MRR) are the primary mechanisms identified to support California's compliance with the federal Clean Power Plan (CPP).[1] ARB Staff have shepherded the state's proposed CPP Compliance Plan through public processes and have identified a plethora of changes to help mold the Cap-and-Trade Program and MRR to meet the needs of the CPP. Eliminating or conducting a wholesale re-design of the Cap-and-Trade Program would necessitate a new stakeholder process to determine how any alternative proposals could better support our state's compliance with CPP. California has paved the way for other states in being the first to develop its plan. But, as the Cap-and-Trade Program is threatened, we must acknowledge that any change in our state's climate policies could disrupt our pathway to compliance and require more drastic overhaul than anticipated. This type of change often comes at a cost to ratepayers and may do little to advance environmental progress in reducing emissions.

The continuation of a well-designed Cap-and-Trade program is critical in supporting public utilities' ability to keep costs down and continue to serve Californians with affordable energy while still maintaining a path toward 2030 statewide GHG goals. SCPPA is concerned that the amount of effort required to protect the longevity of Cap-and-Trade program will diminish the efforts to ensure it is workable in the post-2020 timeframe. The best protection for the program is to have it work as well as possible.

<u>Post-2020 EDU Allocations</u>

In general, SCPPA has serious concerns with the proposed post-2020 Electrical Distribution Utilities (EDU) allocation. AB 32 set the 2020 target and more recently SB 32 calls for a 40% reduction in greenhouse gas emissions by 2030. These two targets meet in the 2020-2021 timeframe, and it is imperative that the transition between the two stages of the program is a smooth one. The concept of transition is one that has been inherent in California's environmental and energy policy discussions – and necessarily so, as all sectors work toward meeting very aggressive policy goals. However, the Staff proposal for post-2020 EDU allocations does not effectively capture this concept of gradual transition, and instead would implement drastic changes for EDUs shifting from the third compliance period to post-2020 implementation. In evaluating the proposal, **SCPPA is troubled by the very steep drop-off in allowances starting in 2021. This first-year "cliff" could have significant impacts on our Members' costs and, in some cases, even their ability to operate their power plants.**

RPS Adjustment. SCPPA appreciates Staff's reconsideration of its proposal to remove the RPS Adjustment. However, we continue to have concerns with the treatment of directly delivered resources in light of Staff's worry over potential double-counting issues related to the misreporting of "null" power. SCPPA believes that a workable solution exists and looks forward to continuing discussions on this issue with ARB Staff and other members of the Joint Utility Group.

Two Options for Load Methodology. ARB Staff presented two options for determining each EDU's load to determine post-2020 allowance allocations. The first option would recalculate an EDU's load over time using data from the Energy Commission's demand forecast or S-2 forms. Many SCPPA Members anticipate increased load growth over the coming years, particularly given increased pushes for transportation electrification in densely populated urban areas. **As such, SCPPA supports the ongoing adjustment of load estimates and corresponding shifts to allowance allocations.** We prefer this option over the alternative proposal to fix load estimates based on 2020 numbers from the Energy Commission Demand Forecast and S-2 Forms. Anticipated changes to load patterns will undoubtedly vary across regions. SCPPA and its Members strongly advise against the application of uniform assumptions across the board for this reason. We look forward to actively engaging in ARB and Energy Commission proceedings to ensure that the unique circumstances of our Members' communities are reflected in the underlying methodologies for estimating load.

[1] As outlined in *California's Proposed Compliance Plan for the Federal Clean Power Plan*, available at: https://www.arb.ca.gov/cc/powerplants/meetings/09222016/proposedplan.pdf.

Shift of Industrial Allocations. SCPPA continues to be concerned with Staff's proposal to shift EDU allocations to directly provide allowances to covered industrial entities' electrical loads. We believe that this proposal would result in disproportionate impacts between publicly-owned utility and investor-owned utility customers. As public entities, it would be especially burdensome or nearly impossible for POUs to comply with the requirements of Proposition 26 when faced with the requirements to raise rates on a limited customer class. In addition, as shared during the October workshop, rough calculations completed by some of our Members demonstrate *significant cost increases* to these covered industrial entities in their service areas as a result of this shift. **Because this change will result in increased costs for utility customers, and in fact could actually impact the covered industrial customers most severely, SCPPA continues to strongly oppose this concept and again recommends that ARB Staff not pursue this issue.**

Allocation Methodology for Additional Electrification. ARB Staff did not make a proposal for addressing any potential increases in emissions due to increased load corresponding with transportation electrification. We appreciate Staff's statement regarding collaboration with other agencies to establish a tracking methodology that could inform future solutions. To the extent that it is helpful in evaluating the practicality of any proposals or expediting the implementation timeframe, SCPPA can work with its Members to provide feedback on the types of data currently available to our POUs. We also recognize that the Energy Commission recently engaged stakeholders in public meetings regarding its proposed Title 20 Data Collection regulations – which include a number of data points related to electric vehicles. We will continue to monitor and participate in that proceeding, and look forward to working with ARB and Energy Commission staff on developing possible solutions. SCPPA encourages Staff to present a proposal in a timeframe that allows sufficient review and analysis by stakeholders.

Regional GHG Accounting Options

The issue of regional GHG compliance and accounting is an extremely complex one. At the October 21 workshop, ARB Staff presented two options stemming from the initial three options proposed in the California Independent System Operator (CAISO) staff's October 13 technical workshop.[2] We understand that there are differences between ARB's two recommendations and those put forth by CAISO; we continue to analyze those details. However, without further elaboration on the rationale for removing the first and second options set forth in CAISO's Technical Workshop, particularly as initial studies have indicated that the Energy Imbalance Market (EIM) dispatch overall may be resulting in significant GHG benefits, stakeholders cannot reasonably weigh possible solutions to address the concerns.[3]

In addition to the remarks offered in these comments, SCPPA supports the comments submitted by the California Municipal Utilities Association on this issue. The ARB and CAISO must adopt policies and market design that (1) incentivize behavior (rather than simply attributing costs); (2) limit vulnerabilities to significant cost exposure outside of entities' control; (3) avoid outcomes that would result in optimizations prioritizing higher-emitting resources.

It seems that ARB's current intent is to pursue CAISO's Option 3, which would involve developing and applying a uniform "hurdle" rate for energy transfers into California from external resources other than external resources contractually committed to California load serving entities (LSEs). We are concerned that this approach may not accurately reflect the costs for emissions in the prices for GHG-emitting resources, and may incentivize procurement and dispatch of higher emitting resources. The prices for low-emitting resources will be elevated as compared to resource-specific attribution of emissions costs, and the prices for high-emitting resources will be suppressed, leading to dispatch outcomes directly contrary to the objectives of California's GHG program. Of equal concern is that LSEs within California will have no foresight of additional charges that they may become subject to, and consequently will not be able to take proactive measures to

[2] Slides from the October 13 CAISO Technical Workshop on Regional GHG Compliance are available here: <http://www.caiso.com/Documents/UpdatedAgenda-Presentation-RegionalIntegrationCaliforniaGreenhouseGasCompliance-TechnicalWorkshop.pdf>

[3] CAISO's Energy Imbalance Market GHG Counter-Factual Comparison found that "secondary dispatch associated with EIM transfers into CAISO to serve load are offset by GHG emission reductions associated with EIM transfers out of the CAISO." <http://www.caiso.com/Documents/EIMGreenhouseGasCounter-FactualComparison-PreliminaryResults_Jan-Jun_2016_.pdf>

mitigate incurring such costs. Further examination of ARB's variance on this proposal is needed to fully understand the potential implications.

Procedurally, the bifurcation of this issue across agencies, and in separate discussions at separate times, creates an unfortunate disconnect between the practical implementation of the changes in the CAISO market and the compliance obligations in the Cap-and-Trade Program. We understand that ARB Staff intend to include a proposal on this issue in 15-day language, but we continue to strongly urge ARB and the CAISO to more thoroughly deliberate the issue and possible solutions in a public forum. This issue will, indeed, have a significant impact on discussions regarding the regionalization of our electric grid. It is appropriate to solicit feedback from the affected regional stakeholders in public forums and with open dialogue including California stakeholders. Rushing through the regional GHG compliance issue limits the amount of meaningful public discussion that can occur and could have long-term negative impacts in the electricity markets. Taking the time to coordinate GHG accounting and compliance in a new electricity market, or in the existing EIM market, is imperative for a successful program. As the electricity sector continues to become cleaner, many new challenges are being overcome at the same time. The primary goal should be achievement of overall GHG emissions reductions, not just accounting for GHG emissions in California for purposes of retiring allowances. Careful consideration of potential effects on the CAISO electricity market is warranted, and addressing this issue outside of the market should be considered. A change in existing GHG regulation may be the better alternative if it would support greater GHG reductions throughout the regional electric grid that supports California.

AB 197 and Post-2020 Cap-and-Trade Program Design Changes

Several proposed changes to address the implementation of AB 197 were presented during the October 21 Workshop. While we appreciate Staff's forthrightness in sharing these conceptual proposals early on, we are concerned with the direction of the amendments. As noted above, SCPPA supports the continuation of the Cap-and-Trade Program and believes that the changes proposed would generally take the program in the wrong direction. Of particular concern is the proposal to retire some or all of the unsold State-owned allowances with vintage year 2020 or earlier. Reducing the amount of available allowances would send the wrong signals to entities with compliance obligations that have taken early actions to "clean-up" their portfolios – particularly those who may be seeing increased load growth over time. We appreciate staff's clarification that any change done in response to this proposal would be subject to evaluation for cost-containment.

SCPPA firmly believes that ARB has already focused on direct reductions in the AB 32 program. There is a myriad of complementary programs that are aimed at reducing GHGs independent of the Cap-and-Trade Program existence. Some of these programs are very expensive, but from the beginning it was always the plan to have the market-based components of the larger effort work in conjunction with direct GHG reduction measures, such as the Renewables Portfolio Standard that applies to electric utilities and requires increasing investment in renewable generation to serve customers. The following was excerpted from the Original Scoping Plan (pg. 34)[4]:

> ARB evaluated a comprehensive array of approaches and tools to achieve these emission reductions. Reducing greenhouse gas emissions from the wide variety of sources can best be accomplished though a cap-and-trade program along with a mix of complementary strategies that combine market-based regulatory approaches, other regulations, voluntary measures, fees, policies, and programs.

AB 32 and SB 32 are GHG programs that can have a significant localized environmental benefit, but they are not traditional air quality programs. California has a robust and successful history with reducing both criteria and toxic air pollutants. In fact, between 2000 and 2013, criteria pollutants regulated by various air districts throughout the state as well as the CARB have reduced. As noted in the Draft 2016 Environmental Performance Report of California's Electrical

[4] https://www.arb.ca.gov/cc/scopingplan/document/adopted_scoping_plan.pdf

Generation System based on data from the CARB Almanac Emissions Projection Data, criteria pollutants from electricity production in the state have decreased. These two distinct program areas have been working in conjunction over the last decade, even though they have different statutory mandates, timelines, scopes of influence, and overall goals.

Market Data Transparency

Based on the Staff presentation, we understand that there are no recommendations to change data release requirements in this regulatory package, nor are there set timeframes for implementing any such changes. We encourage ARB Staff to consult stakeholders informally before proposing any future changes that would affect reporting requirements or alter the types of data (both content and format) that ARB would release. SCPPA Members are responsible for maintaining customer confidentiality and would strongly oppose any suggestions that could impair their ability to do so. However, SCPPA supports market transparency and is open to further discussions on the release of additional data points that could be made available without privacy concerns and significant administrative cost burdens on reporting entities.

Conclusion

Thank you for your time and consideration. SCPPA and our Members continue to seek forward progress on a variety of issues that have been raised over the past year. We remain ready to meet with ARB Staff and other agencies to work towards mutually agreeable solutions that best advance the State's climate change goals in an affordable manner for California ratepayers.

Respectfully submitted,

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