Golden State Power Cooperative
The Power of Cooperatives

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October 22, 2018

Rajinder Sahota, Assistant Division Chief
Industrial Strategies Division
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: *Comments on Cap-and-Trade Program Proposed Amendments*

Dear Ms. Sahota:

The Golden State Power Cooperative (GSPC) appreciates the opportunity to provide the California Air Resources Board (CARB) with these comments on the proposed amendments to the Cap-and-Trade Regulation published on September 4, 2018.

GSPC represents the state's electric cooperatives. The electric cooperatives are electrical distribution utilities (EDUs) that use their allowance value to mitigate the cap-and-trade program compliance burden for their member-customers. California's electric cooperatives are governed by Public Utilities Code section 2776, and by law, are not-for-profit and organized for the purpose of transmitting or distributing electricity exclusively to their members at cost.[1] Because of the vital role that the allowance value plays in offsetting cap-and-trade program compliance costs for the electric cooperatives' member-customers, GSPC focuses these comments on the proposed amendments in section 95892(d) and (e) regarding the authorized use of allowance value and reporting on such use. Specifically, regarding section 95892(d)(3) and new sections 95892(d)(3)(A)-(D), the Initial Statement of Reasons (ISOR) notes that the "Text is amended to list *all* of the allowed uses of EDU allocated allowance auction proceeds." (ISOR, p. 105, emphasis added) The electric cooperatives are concerned that this language creates specific mandates that unduly and needlessly restricts the use of allowance value. GSPC also offers support for amendments in section 95892(b)(2). GSPC also joins in and supports the joint comments submitted by the California Joint Utility Group, submitted on October 22.

Introduction

Cooperatives are owned and governed by local, member-elected boards from the communities they serve. Collectively, California's electric cooperatives serve just over 300 gigawatt-hours (GWh) of electricity in California, accounting for less than 0.1% of California's total electricity use. The ISOR correctly notes that the electric cooperatives, like POUs, are subject to their own governance structures. (ISOR, p. 103) Electric cooperatives, however, are distinguished from both the POU, and the load serving entities (LSEs) subject to the CPUC's jurisdiction in several

[1] Cal. Pub. Util. Code (PUC), section 2776.

respects. First of all, due to their unique statutory structure, cooperatives must comply with different energy mandates; in some instances, these are the same mandates that apply to the POUs and in other instances electric cooperatives are required to meet the same requirements as CPUC-jurisdictional LSEs. In other instances, specific statewide mandates do not apply to the electric cooperatives, although they function consistent with the objectives of such mandates.

Unlike most of the state's other EDUs, electric cooperatives have a unique relationship with the federal government due to the integral support from the US Department of Agriculture's Rural Utility Service (RUS). All of the electric cooperatives were initially formed by utilizing loans from RUS, which were made available as part of the New Deal to assist rural areas of the country that had been unserved by investor-owned utilities. Some electric cooperatives still utilize loans from the RUS; with both accounting and engineering specification oversight. The majority of electric cooperative electricity resources are all-requirements contracts with RUS-financed generation or wholesale electricity from federal power marketing administrations, such as Bonneville Power Administration.

The cooperatives are also somewhat unique in that they provide electric service to their member-customers living in rural communities; many of the communities they serve are disadvantaged, despite the fact that they may not meet the definition of Health and Safety Code section 39711. For example, within Anza Electric Cooperative's service territory, up to 15.9% live at the poverty level and unemployment has been as high as 18.1%. Anza has a total of 3,880 member-ratepayers in California, and an average of 6 meters per mile along the 737 miles of energized powerlines in Anza's service territory. Similarly, Surprise Valley Electrification Corp. has 3,106 member-ratepayers in California, with just 2 meters per mile on their 1,566 miles of energized powerline that covers over 4,000 sq. miles. Surprise Valley's service territory has a declining population of nearly 9% in the past five years and unemployment of 7.8%[2] with 18.7% of the population living at the poverty level.[3] PSREC serves approximately 6 member-ratepayers per mile, with over 1,305 miles of energized powerlines, with an average poverty level of 14.9%[4] and an average unemployment rate of 8.6%[5] in the region. Electric cooperatives have the task of providing affordable and reliable electricity to the vast, rural, low-density, and socioeconomically disadvantaged communities they serve.

Clarification on Use of Allowance Value Must Not Be Unduly Restrictive

GSPC supports the language clarifying that allowance proceeds are intended for the "primary benefit" of electricity ratepayers, but is concerned that requiring the use of one of the specific approaches delineated in sections 95892(d)(3)(A)-(D) restricts creativity and the scope of what should otherwise be eligible programs. Furthermore, while use of allowance proceeds for administration and outreach are included in the list of authorized uses, the ensuing definition of outreach appears to preclude *educational* outreach, which should be corrected. The regulatory amendments must balance the objective of providing greater certainty regarding acceptable uses of allowance value with unduly restricting legitimate and lawful uses. In order to meet the needs

[2] Career Trends (December, 2016) http://unemployment-rates.careertrends.com

[3] U.S. Census Bureau (2015) https://www.census.gov/quickfacts

[4] https://www.census.gov/quickfacts/table/PST045215/06063,06091,06035.

[5] http://unemployment-rates.careertrends.com/compare/2859-2873-2887/Sierra-County-CA-vs-Plumas-County-CA-vs-Lassen-County-CA.

of their diverse, rural service areas, the cooperatives have designed programs and measures that "are exclusively for the primary benefit of their retail electricity ratepayers," but which do not necessarily fall into the categories delineated in sections 95892(d)(3)(A) or (B).

Renewable Energy: The list of acceptable uses properly includes programs and projects related to "Renewable Energy or Integration of Renewable Energy." However, the list of specific renewable energy-related programs unnecessarily restricts expenditures to a subset of RPS-eligible programs, excluding renewable investments that are not RPS-program eligible, but which are still consistent with meeting the state's renewable energy and GHG reduction targets. This is particularly relevant for electric cooperatives who have made significant investments in non-GHG emitting resources consistent with state renewable energy goals, but are not part of the state's RPS-program mandates because of the cooperatives' unique statutory governance. Authorized investments of cap-and-trade program allowance proceeds in renewable energy should include investments that go beyond merely meeting currently defined RPS mandates. This will become increasingly important as the state implements Senate Bill 100, and moves towards meeting a goal of carbon neutrality, which includes recognition of zero-carbon hydropower resources.

This section should also specifically recognize out-of-state renewables that play an integral role in meeting current and future emissions reductions targets, especially in cases in which EDUs have all-requirements contracts with out-of-state power providers. Electric cooperatives have an obligation to provide affordable electric service to their rural consumers and need flexibility to use allowance value in a broad range of renewable energy investments. Broadening this section to authorize the use of allowances for all zero-carbon resources will enable EDUs to meet the challenge of SB 100 in the most cost-effective manner. The cooperatives recommend that the following be added to § 95892(d)(3)(A)(1) "an eligible renewable energy resource includes a renewable energy or zero-carbon facility that is located outside California, if the facility is connected to the WECC transmission system."

Energy Efficiency and Fuel Switching: The authorized use of allowance value for "Energy Efficiency and Fuel-Switching" should be revised to explicitly reference additional resource types. For example, the authorized use associated with EDU expenditures on EV programs should be included. The use of allowance value for utility-owned EVs and EV infrastructure provides particular benefits in areas like those served by the cooperatives. Because of the primarily rural location and socio-economic demographic, in addition to advancing the state's EV objectives, utility owned EVs and EV charging infrastructure provides the added benefit of setting an example that EV ownership in remote locations is feasible. This example is necessary in areas where commercial charging stations and state funded projects are not likely to be placed. Access to utility owned-EV infrastructure would encourage EV ownership within the electric cooperatives' service territories and further advance the state's goals of increasing EV ownership.

Another authorized use under section 95892(d)(3)(B) should include funding for cogeneration and combined heat and power projects. These projects have higher efficiency rates than traditional combustion generation, and specifically meet the stated objective of reducing GHG emissions through "changes to lower emission intensity energy sources." (ISOR, p. 5) Since cogeneration investments made by the cooperatives still have significant debt and costs associated with them, such as the large investment by Plumas-Sierra REC to build a high-

efficiency cogeneration plant specifically designed and built to comply with AB 32, it is important that perceived changes in the authorized use of allowance value not jeopardize funding for past investments. For example, the PSREC cogeneration facility will have 10 years of principle and interest payments left in 2020, and the use of allowance value for this GHG-reducing project was an integral part of the cooperative's GHG reduction plan.

Other GHG Emission Reduction Activities: The inclusion of "Other GHG Emission Reduction Activities" is very important. The section should be interpreted to authorize the use of allowance value for a broad range of programs and measures that otherwise meet the statutory and regulatory mandates of reducing or avoiding GHG emissions and benefiting electricity ratepayers, and should not be narrowly construed. It is imperative that section 95892(d)(3)(C) be interpreted to include any renewable energy programs that advance the state objective of achieving carbon neutrality, and to the extent that section 95892(d)(3)(A) is not expanded to include a broader range of renewable energy projects, any renewable energy projects that do not fall within the definition set forth in section 95892(d)(3)(A) should be expressly authorized herein. Likewise, should the provisions of section 95892(d)(3)(B) not clearly reflect the fuel-switching and reduced emissions intensity value of cogeneration and combined heat and power projects, those should be specifically authorized as part of section 95892(d)(3)(C).

Furthermore, in this era of emerging awareness of the adverse climate impacts associated with wildfires, permissible uses of allowance value should explicitly recognize programs and projects that directly attribute to *carbon avoidance* through wildfire mitigation. Programs and projects that provide electric utility infrastructure resiliency and wildfire prevention are valid expenditures of allowance value that primarily benefit the electricity ratepayers that would be most immediatley and adversely impacted by a wildfire event. The state has already recognized this direct link, authorizing greenhouse gas reduction funds (GGRF) to such projects. This funding, however, should not be used as grounds to preclude eligibility of utility-specific projects, as targeted programs and measures within an EDU's service territory could significantly complement statewide expenditures. Additionally, and of significant relevance to the electric cooperatives, the GGRF funds that are allocated to Cal Fire and other California-based agency expenditures are of little or minimal impact to GSPC members, since cooperatives' service territories are dominated by federal lands, and not state-owned lands.

Reporting Use of Allowance Value: GSPC agrees that the goal of reporting on the use of allowance value should allow for transparency in the expenditure process and facilitate CARB's tracking of how allowance allocation to the EDUs is contributing to the AB 32 goals. (ISOR, p. 111) However, the specific mandate in section 95892(d)(5) that "Electrical distribution utilities must *demonstrate* GHG emissions reductions," is not consistent with the further direction in section 95892(e)(4) that requires "Estimating the GHG emission reductions from each use of allocated allowance auction proceeds." While it is entirely appropriate to show how emissions reductions will result from program expenditures, this "demonstration" will not necessarily be possible at the time the program funds are expended. What is more relevant, is the estimate of reductions that would be included in the report, as well as the accompanying narrative about the *overall* program benefits, including the impacted electric customers on whose behalf the expenditures are made. Even more important, however, is the fact that the cost-to-reduction comparison must not be used as the sole measure of a program's success, and estimates of reductions that are not achieved should not be used to "disallow" or invalidate programs from

moving forward. The total quantitative value of emissions reductions from various programs can be varied, which in no way invalidates the overall benefits from a specific program.

In reporting the use of allowance value, GSPC appreciates the recognition that forward-looking programs would need to estimate emissions reductions, and inclusion of a list of acceptable metrics. The regulatory text, however, should be revised to clarify that the calculation "*may*" use the listed metrics, if appropriate. (section 95892((d)(4)(B)) Quantification formulas do not necessarily cover all types of programs, and it will not be appropriate in all instances to use the specific calculation metrics provided.

Support for Streamlined Allowance Transfers

Electric cooperatives support amendments in section 95892(b)(2), which authorizes the placement of allowances in compliance accounts of an electric generating facility operated by a federal power authority. Surprise Valley Electric purchases all of its power resources from Bonneville Power Administration and appreciates efforts to streamline CITSS transactions, reduce administrative costs, and maximize the value to electricity ratepayers.

Conclusion

GSPC offers these comments to highlight the importance of ensuring that the guidance CARB is attempting to provide in the regulatory amendments not be so constrained as to result in excluding programs that meet the statutory objectives of AB 32 and the state's broader climate policy goals, while primarily benefiting retail electricity ratepayers. It is also important to ensure that quantification of total emissions reductions for a given project not be used as a metric for measuring the relevance or validity of a given project or program. Given the economic and geographic diversity that the electrical cooperatives represent, a single, demonstrable metric for measuring the success of a given project or program is not feasible. GSPC urges the Board to direct further revisions to the proposed amendments to better balance the objective of providing greater certainty regarding acceptable uses of allowance value, without unduly restricting legitimate and lawful uses that reduce GHG emissions, benefit electricity ratepayers, and meet the objectives of AB 32 and the state's broader climate and environmental goals.

Respectfully submitted,

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