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Submitted electronically

October 22, 2018

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 Proposed Amendments***

Dear Ms. Sahota:

The Northern California Power Agency¹ (NCPA) provides these comments to the California Air Resources Board (CARB) on the proposed amendments to the Cap-and-Trade Regulation, released on September 4, 2018. NCPA's comments focus on the proposed amendments regarding the use of allowance value and reporting on the use of allowance value, as well as the proposed amendments on compliance obligations associated with EIM outstanding emissions.²

EDU Use of Allowance Value

NCPA appreciates staff's efforts to provide greater clarity and transparency related to the electrical distribution utilities' (EDUs) use of allowance value. That clarification, however, must be balanced with the need to ensure that EDUs are afforded the flexibility to design and implement GHG emissions reduction programs and measures that provide the optimal benefits to their electricity ratepayers. NCPA fully supports the revisions to section 95892(d)(3) providing that allowance value and auction proceeds from allocated allowances be used exclusively for the *primary* benefit of retail electricity ratepayers. This change recognizes that programs and measures that are for the primary benefit of electricity ratepayers may also have secondary benefits for other members of a given community or the state at-large. The primary benefit of electricity ratepayers and GHG reductions consistent with the AB 32 and that state's broader climate policies can be achieved through programs and projects other than those specifically delineated in (d)(3)(A)-(D). Placing restrictive interpretations on authorized uses of allowance value limits creativity and the scope of what should otherwise be eligible programs. The

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.

² NCPA also supports the joint comments submitted by the California Joint Utility Group.

characterization in the ISOR that the proposed amendments “list all of the allowed uses of EDU allocated allowance auction proceeds,” can be narrowly construed to needlessly restrict the lawful use of allowance value. (ISOR, p. 105)

GHG Emission Avoidance

NCPA urges CARB to explicitly recognize programs and projects that directly attribute to *carbon avoidance* as permissible use of allowance value. In Senate Bill (SB) 901, the state designated \$1 billion from the Greenhouse Gas Reduction Fund (GGRF) for this purpose, acknowledging that investments in wildfire mitigation have a direct impact on GHG emissions. However, investments in statewide programs are not enough. EDUs such as NCPA’s member utilities are uniquely situated to provide direct and impactful benefits to their electricity ratepayers that mitigate the risk of wildfires and the ensuing destruction, including GHG emissions. Utility infrastructure resiliency and wildfire prevention projects and measures would provide direct benefits to electricity ratepayers, as those ratepayers would be the first, and most directly impacted individuals in the event of a wildfire event. While this is true of all utility ratepayers, in the context of the local jurisdictions served by the POU, this is even more immediately relevant, where targeted and individualized programs and measures within an EDU’s service territory can be designed and implemented to complement the broader, statewide efforts funded by GGRF. NCPA understands that emissions avoidance has not traditionally been considered within the context of emissions reductions, but that does not mean that such expenditures are not appropriate. Rather, the proposed amendments to the regulation provide the agency with the ideal opportunity to address this clarification.

Reporting on Use of Allowance Value

In Section 95892(e)(4), proposed amendments address the manner in which allowance expenditures should be reported. The reporting requirements include an estimate of the GHG emission reductions from the use of the allowance value. The language in this section, which provides a framework for estimating the anticipated reductions, should be used in section 95892(d)(5), rather than the proposed amendment which provides that EDUs “must demonstrate GHG emissions reductions.” *Estimating* GHG emission reductions is not the same as *demonstrating* reductions, and the regulations should clearly note this distinction. Furthermore, the success of an emissions reduction measure cannot be judged solely by quantifying the reductions, which does not mean the program is less valuable on the whole. Meaningful and impactful emissions reduction programs that provide exclusive or primary benefits to electricity ratepayers may provide fewer emissions reductions than comparable programs, but may provide those reductions in a disadvantaged or highly-impacted community, clearly meeting the broad objectives of AB 32 and AB 617.

Estimating emissions reductions is an important part of assessing whether to make investments in various programs and measures, but obtaining an accurate estimate of actual emissions is not always going to be possible, and final program results may not deliver the same amount of emissions reductions that had been estimated. Again, this should not be the sole factor that determines whether a given program is acceptable. It will not always be possible to for EDUs to provide a quantitative demonstration of the emissions reductions from any given program or measure funded by allowance value or auction revenues. For example, under the California Climate Credit or a non-volumetric return of allowance value to ratepayers, it is not always possible to measure exactly how the proceeds were used to reduce emissions reductions; while the regulation does not propose that emissions from those programs be quantified, it is analogous to potential EDU programs, including programs and measures that provide emissions

avoidance, such as educational programs. The proposed amendments should be revised to clarify the metric for estimating the anticipated reductions be used, “where applicable,” as not all emissions reduction programs and measures fall clearly within the defined evaluation criteria in 95892(e)(4)(B). These include programs that are geared at education and outreach, but which are not currently included in the definition of “administrative and outreach costs” in 95892(d)(4). These types of programs are vitally important for not only meeting the state’s current reduction targets, but also for educating the public on practices that will be necessary for the state to obtain its carbon neutrality objectives.

Renewables Energy Projects

As the state moves increasing towards greater use of renewable energy, EDUs will be looking beyond projects that are RPS program-eligible. Authorized use of allowance value for renewable energy projects should not be limited to those defined in Public Utilities Code section 399.16(b)(1). This means expanding the definition to acknowledge all currently authorized RPS-eligible resources, as well as renewable resources that will facilitate California’s transition to carbon-neutrality. Beneficial renewable energy projects go far beyond meeting existing RPS mandates, as demonstrated by Senate Bill 100 (Statutes of 2018), and NCPA urges CARB to recognize that EDUs will need to procure and/or develop additional, non-RPS qualifying renewable resources, and to authorize the use of allowance value for that purpose.

Other GHG Emission Reduction Activities

The proposed amendment that allow for expenditures on “Other GHG Emission Reduction Activities” is key to ensuring that EDUs can implement programs and measures that best meet the needs of their electricity ratepayers, consistent with the objectives of AB 32. Since there are myriad programs and measures that can meet the statutory and regulatory mandates that do not fall within the specific categories listed in 95892(d)(3)(A), (B) or (D), it is important to include this new provision. As a threshold matter, Other GHG Emission Reduction Activities should explicitly allow for all programs and measures that provide benefits to utility ratepayers and meet the objectives of AB 32, including renewable energy programs that advance state objective of carbon neutrality. Investments in programs and projects that directly attribute to carbon avoidance should be permitted, including investments in programs such as resiliency and wildfire prevention.

This section, must be interpreted broadly, and as currently drafted would preclude investments in zero-emissions resources that do not specifically meet the RPS requirements. As noted above, this restriction is unduly burdensome, as renewable energy projects provide direct GHG benefits, irrespective of whether they are RPS-program eligible. This distinction is ever more restrictive in light of SB 100, and the continued focus on non-GHG emitting resources, versus “RPS program compliant” resources. Section 95892(d)(3)(A) should either be revised to expand the definition of renewable energy projects, or those projects that do not fall explicitly within that section should be authorized as “other GHG Emission Reduction Activities.”

EDUs should be encouraged to pursue, develop, and implement innovative programs and measure that meet these objectives, and should not be unduly constrained in doing so. For that reason, NCPA appreciates the inclusion of this section, as noted above. As discussed herein, this section should be revised to clarify additional acceptable uses. This includes programs and measures that are specifically aimed at GHG avoidance and fire-risk prevention for utility infrastructure. NCPA urges CARB to proactively acknowledge that *avoided* emissions can be just as valuable as reduced emissions in the context of wildfire mitigation for electric utilities.

Administrative and Outreach Costs

Costs associated with administration and outreach can be varied. Administrative costs are more easily defined than those used for outreach. For example, educational programs should be acceptable uses of allowance value, but do not necessarily fall within the description of supporting other uses of allowance value covered by sections 95892(d)(3)(A)-(D), such as promoting awareness of a specific rebate and the associated benefits. (ISOR, p. 107). Rather, education programs targeted at the importance of reduced electricity usage and associated GHG reductions do provide direct benefits to the electricity ratepayers by raising awareness of the need for GHG reductions, and are critical in ensuring that the state's long-term climate goals are achieved. It is important that this section be defined and implemented in a manner that allows for such expenditures.

EIM Outstanding Emissions

While NCPA understands CARB's desire to address the emissions from the California Independent System Operator (CAISO) EIM that are deemed "EIM Outstanding Emissions," NCPA has concerns with the proposed amendments that would change the current structure for retiring allowances for this obligation. The issue is extremely technical and one that does not lend itself to an easy solution. Any changes to the current bridging solution should be designed in a way that sends a signal to stakeholders about the potential compliance obligation associated with the EIM, and an opportunity to modify behavior accordingly. Criticisms of the current structure are not addressed in the proposed alternative, as the entities to whom a compliance obligation would be assigned may not currently be compliance entities under the cap-and-trade program, and have no control over the extent to which they will be exposed to compliance obligations for EIM Outstanding Emissions. NCPA urges CARB to retain the bridging solution, and not make changes to the current structure until such time as CARB, working directly with CAISO and stakeholders, can design a compliance structure for EIM Outstanding Emissions that directly links the compliance obligation with the responsibility for the emissions, and does so in a manner that sends the appropriate signal to the market and market participants.³

Conclusion

Providing clarity and transparency in the use of the allowance value that has been entrusted to the EDUs for the benefit of their electricity ratepayers is important. NCPA urges the Board to direct that further clarifications and refinements to the provisions regarding the use of allowance value as discussed herein be incorporated in 15-day changes. 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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Attorneys for the **Northern California Power Agency**

³ CARB's proposal to address leakage associated with the EIM should continue to be narrowly construed. In the event that leakage is identified which is not otherwise captured within the program's current regulatory framework, is important that cap-and-trade program compliance entities with no control over emissions leakage or means to modify behavior to mitigate the leakage not be held responsible for such emissions leakage.