November 4, 2016

Rajinder Sahota
California Air Resources Board
1001 “I” Street
Sacramento, CA 95814

RE: Turlock Irrigation District Comments on the October 21, 2016 Cap-and-Trade Workshop

Dear Ms. Sahota,

Turlock Irrigation District (“TID”) respectfully submits the following comments to the California Air Resources Board (“ARB”) on the October 21, 2016 Workshop on the Cap-and Trade Regulation. As discussed below, TID believes that the extension of a prudently designed Cap-and-Trade Regulation after 2020 is the most efficient and cost effective means of achieving the deep emissions reductions contemplated in SB 32. We also believe the Cap-and-Trade will minimize costs of compliance compared to other carbon reduction measures (e.g., direct regulation or a carbon tax). TID is especially concerned that a fundamental shift in policy would impact its ratepayers, the majority of whom are located in disadvantaged communities. Ratepayers in disadvantaged communities tend to pay relatively more for electricity compared to higher income areas because electricity bills are a higher percentage of their total income. A change in policy such as a tax or direct regulation would disproportionately affect ratepayers in disadvantaged communities. TID strongly supports the extension of the Cap-and-Trade program post 2020, enjoining the ARB to ensure the post 2020 Cap-and-Trade program strikes an appropriate balance between the state’s environmental goals and the utilities’ responsibility to provide reliable power in a cost-effective manner to its’ ratepayers. To balance these objectives, the ARB should retain the current offset provisions, retain the RPS adjustment, and refine the utility sector allowance allocation proposal to provide additional transitional assistance in meeting the State’s ambitious 2030 goal. TID appreciates the continued opportunity to work with the ARB staff on improving the Cap-and-Trade regulation and extending the program beyond 2020.

DISCUSSION

I. The ARB Should Retain The Cap-and-Trade Program Post-2020.

The Cap-and-Trade program is an efficient and cost-effective means of achieving greenhouse gas emissions reductions and should be extended post-2020. A wholesale shift to another system, such as a carbon tax or direct regulation of in-state GHG emissions sources, would be extremely disruptive at a time when regulated entities and other market participants need greater certainty for the future of the Cap-and-Trade program. Meeting the State's aggressive 2030 target, will require California to provide certainty and consistency in its climate change programs as this encourages the near-term emissions cuts and investments needed to set the state on a trajectory towards meeting the 2030 targets. On the other hand, a shift to a completely different regulatory scheme would derail covered entities' longer term GHG reduction strategies, investments and compliance plans that were developed in reliance on a long term Cap-and-Trade program. Moreover, a shift to a different type of regulatory system would detrimentally impact California's most disadvantaged communities. For companies like TID whose ratepayer owners are mostly in disadvantaged communities, a wholesale change in policy will increase costs for these customers. For these reasons, the ARB should send a clear signal to all regulated entities and market participants that the State will extend the Cap-and-Trade program post-2020.

II. The ARB Should Refine The Allowance Allocations To Provide A Smoother Transition To The 2030 Target.

The October 14, 2016 Staff Allocation Proposal would create an allocation "cliff" between 2020 and 2021. This drop off in allocations to EDUs is primarily attributable to the "bottom-up" allocation methodology, an aggressive cap-adjustment factor, and changes in allocation policies (e.g., no longer recognizing early action and reallocating allowances to industrial entities). The transition should be smoothed in order to avoid allowance price shocks and to better enable the energy sector to help the rest of the economy transition to the aggressive 2030 emissions goals. The ARB should continue to recognize early action because utilities are continuing to incur the costs of these early actions. The ARB should not reallocate allowances to industrial customers because the resulting reduction is a cost that will be borne by all customers (i.e., most EITE customers do not have special Emission Intensive Trade Exposed ("EITE") rates). At the same time, EITE customers will continue to benefit from the use of revenue generated from consigned allowances as many utilities invest allowance revenue in programs that benefit all customers. The ARB should also change the cap-adjustment factor to provide a smaller decline in the first half of the 2020-2030 program and a steeper decline in the later years. This change will better enable the electricity sector to assist with the transition to a low carbon economy (e.g., vehicle electrification and electrification of certain natural gas uses). A more favorable cap adjustment factor will also avoid sudden electricity rate increases that would slow the transition to lower carbon-content fuels. Finally, as with the current iteration of the Cap-and-Trade, providing "transitional assistance" is an important policy objective because the 2030 GHG target is aggressive.

III. The ARB Should Not Permanently Retire Unsold Allowances.

At the October 21, 2016 Workshop, the ARB staff discussed the possibility of permanently retiring all or a portion of unsold allowances from the recent auctions. This proposal would significantly tighten the supply of allowances in a post 2020 Cap-and-Trade market. At the same time, the ARB has also proposed to drastically reduce free allocations to electric and industrial entities. We are concerned that the combined effect of these policy decisions could lead to allowance price shocks sometime before 2020. Increased GHG prices will not necessarily achieve the policy goals the environmental justice community is advocating. Many of the in-state GHG sources are critical infrastructure that is needed to maintain electric reliability. Their permits to operate issued pursuant to the clean air act govern the amount of criteria pollutants they emit, not the Cap-and-Trade. Changes in Cap-and-Trade allowance prices will increase the costs of operating these facilities, but will not cause them to be shut down. Increased allowance prices will simply lead to higher costs being passed onto ratepayers. We are concerned that these policy proposals would have the counterproductive effect of increasing rates paid by our ratepayer owners, many of whom live in disadvantaged communities.

IV. The ARB Should Not Reallocate Cap-and-Trade Allowances From POU Electric Distribution Utilities to Emissions Intensive Trade Exposed Industries.

The October 14, 2016 Staff Allocation Proposal would reallocate a certain amount of allowances from EDUs to EITE industries. As we explained in our comments on the 45-day language, TID does not support the reallocation proposal. Notwithstanding our concerns with this proposal, we believe that if the proposal moves forward, it should be implemented in an equitable way. The October 14, 2016 Staff Allocation Proposal would not reallocate allowances on a 1:1 basis. Instead, any allowances allocated to industrial entities would be subject to the significant reduction in industrial assistance factors that apply to EITE industries. The EITE free assistance factors decline at a faster rate than the Electric Distribution Utility ("EDU") allocations, and as a result, the reallocation would not be on a 1:1 basis. If the ARB decides to move forward with the reallocation, the reallocation should be more equitable and the utility's allocations should only decline in the amount that will actually be redistributed to EITE entities. The reallocation should not be based on historic load data of the EITE entities. Instead, the ARB should calculate the anticipated production for individual EITE customers based on historic production and multiply their anticipated production by the 2021 – 2030 assistance factors for the applicable NAICS code. The anticipated allocation should then form the basis for reallocating Cap-and-Trade allowances to the industrial sector.

V. TID Supports The Retention Of The RPS Adjustment And Encourages The ARB To Continue To Evaluate The Reporting Requirements For Direct Deliveries.

The RPS Adjustment ensures that utilities, like TID, that made early, voluntary investments in out-of-state renewables are able to utilize zero emissions resources without paying a carbon price. The RPS Adjustment is a critical component of the Cap-and-Trade Regulation, and TID supports the ARB's proposal to retain the RPS adjustment in the October 14, 2016 Staff Allocation Proposal. TID is committed to continuing to work with the ARB staff to revise the MRR guidance language to ensure that the existing regulatory requirements that prohibit an RPS adjustment claim when there is direct delivery of "null power" (i.e., energy without the RECs) can be reasonably satisfied by reporting entities. The simplest way to satisfy the direct delivery requirement would be to revisit the ARB staff's proposed policy decisions in the MRR rulemaking that would allow an entity to claim a specified source emissions factor from an eligible renewable resource even though the importing entity did not procure the "green attributes." The ARB's proposed removal of the REC serial number reporting requirement will exacerbate the direct delivery issue because there will be a financial incentive to import null power and take advantage of green attributes the importing entity did not pay for. This change in the MRR will effectively send a market signal that California encourages the direct delivery of null power and use of green attributes irrespective of whether an importing entity actually acquired those attributes. As we noted in our comments on the MRR, the ARB should minimize direct delivery concerns through the enforcement of the REC serial number reporting requirement for specified imports. If the ARB moves forward with its proposed changes to the MRR and removes the REC serial number reporting requirement, it should work with entities that claim the RPS adjustment to refine the MRR guidance language to include voluntary steps electric power entities may take to limit direct delivery of null power. For example, the ARB could recognize contractual provisions limiting direct delivery into California. In addition, the seller warranty requirement could also be used to address the direct delivery issue. To claim an import as specified, the seller must provide the electric power entity with a seller warranty. If the seller of null power clearly states that the power is being transacted on an unspecified basis, the null power could not be claimed as a specified import and there should not be a direct delivery concern. TID looks forward to discussing these and other options for resolving the RPS adjustment issues with the ARB.

VI. The ARB Should Encourage A Robust Offset Market.

The 8% offset usage limit is an important aspect of the Cap-and-Trade program. Offsets allow for investments in cost-effective emissions reduction and create a needed price signal for new innovative GHG emissions reduction technologies. The usage of offsets also serves as an important cost containment measure in the event that an additional supply of compliance instruments is needed by obligated entities. We are also concerned that the removal of offsets from the program would be counterproductive to the broader policy goals of AB 197. The proposal to remove offsets from the program would also remove an important funding mechanism for GHG reduction projects (e.g., livestock and urban forestry projects) in California's disadvantaged communities. The ARB should retain the 8% offset usage limit and continue to evaluate new opportunities for offset protocols, such as the REDD offset program.

VII. In Calculating Allowance Allocations to EDUs, The ARB Should Account for the Individual Utility Load Growth Assumptions.

Allowance allocation is perhaps the most important issue in the development of a post 2020 Cap-and-Trade program. The current methodology addresses the diversity in California's electricity sector. Since utilities are complex and affected differently by Cap-and-Trade, it is important to recognize that diversity in the allocation methodologies. The use of the S-2 forms takes an important step in fulfilling this objective. However, an assumption of flat load growth across the entire electricity sector does not address the variability among utilities. Utilities like TID that have territories with more affordable costs of living can reasonably expect to see load growth. Furthermore, by virtue of a POUs smaller size, even a single new large customer can swing load growth by more than 1%. The ARB should recognize some load growth variation in their allocation methodology.

CONCLUSION

TID is pleased to provide comments on the October 21st workshop. TID supports the extension of the Cap-and-Trade and believes that it has effectively driven and will continue to achieve meaningful reductions in GHG emissions. To date, the Cap-and-Trade has proven to minimize the cost burden felt by TID's ratepayer owners, particularly those in disadvantaged communities. We applaud the ARB for the steps it has taken to recognize that in addition to furthering the State's important GHG objectives, utilities must also ensure that electricity is affordable and reliable for all of California's citizens. As the ARB refines the Proposed Amendments in 15-day language, the ARB should also continue to acknowledge the disproportionate burden borne by the energy sector as it leads the way to a cleaner, more renewable future. TID looks forward to helping the state achieve our ambitious GHG targets and looks forward to actively participating in the ongoing discussions on these important objectives.

Respectfully Submitted,

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Ken R. Nold
Turlock Irrigation District