

March 16, 2018

Mary Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Modesto Irrigation District's Comments on the Workshop to Discuss Possible Revisions to the Cap-and-Trade Regulation

Dear Chairwoman Nichols:

The Modesto Irrigation District ("MID") appreciates the opportunity to submit its comments to the California Air Resources Board ("ARB") regarding the potential revisions to the Cap-and-Trade regulation as discussed at the workshop held on March 2, 2018 and proposed in the February 2018 Preliminary Discussion Draft of Potential Changes to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms ("Discussion Draft"). MID supports the ARB's direction to complete the Cap-and-Trade rulemaking process to incorporate the new program features required by AB 398 by the end of 2018, appreciates this pre-rulemaking step in the process, and offers the following comments.

MID supports the ARB's efforts to clarify the acceptable usage of allocated allowance value, but requests more flexibility to be added than has been proposed in the Discussion Draft. As a locally-governed Publicly Owned Utility ("POU"), MID is committed to using any allocated allowance auction proceeds to prevent significant rate impacts to our electric service customers - as was the original intent of allowance allocation to Electric Distribution Utilities ("EDU") - while furthering the goals of AB 32. In the future, as emissions reductions become more difficult and more expensive to achieve - and allowance prices escalate - innovation and new technologies will play an increased role in achieving GHG reduction goals. As such, the ability to use allocated allowance auction proceeds to fund currently unforeseen programs or equipment will be a valuable tool for reaching EDUs' aggressive GHG reduction goals. MID requests that ARB include a provision to the list of acceptable uses of allocated allowance auction proceeds proposed in Section 95892(d)(3), so that the existing list is not construed as exhaustive. Any usage of allocated allowance auction proceeds not specifically listed in Section 95892(d)(3) would still be subject to the requirement for quantification of GHG emission reductions as proposed in Section 95892(d)(3)(E).

MID agrees with ARB Staff's thinking on the issue of "overallocation." The Cap-and-Trade program has been working as designed and intended and the fact that covered emissions are lower than the annual cap should not be construed as a failure of the program, but as a success. MID, for example, has divested its ownership share of the San Juan coal plant and has purchased increasing amounts of low-emission Asset Controlling Supplier ("ACS") energy over the past several years to lower its GHG emissions and compliance obligation, even in an environment with low allowance prices. Changing the rules of a successful program to mitigate an issue that has not been substantiated would be a mistake, particularly if such action would penalize entities that have maintained compliance with the program and made investments to decrease their emissions. To implement an action such as lowering the emission cap or devaluing banked allowances, as has been suggested by some stakeholders, would erode confidence in

the program and make it more difficult for entities to plan the investments, upgrades, and strategies necessary to meet California's 2030 emissions reduction goals.

Thank you for your consideration of our comments on these important issues.

Sincerely

A handwritten signature in blue ink, appearing to read 'Gary Soiseth', with a stylized, flowing script.

Gary Soiseth
Regulatory Administrator
Modesto Irrigation District
1231 11th Street
Modesto, CA 95354