

March 16th, 2018

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California Air Resources Board  
1001 "I" Street  
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***Filed Electronically***

*RE: TID Comments on Possible Revisions to the Cap-and-Trade Regulation as discussed at the March 2<sup>nd</sup> workshop*

Turlock Irrigation District ("TID") submits the following comments and responses on the California Air Resources Board ("CARB") staff Preliminary Discussion Draft (PDD) of potential changes to the Cap-and-Trade Regulations and price containment points presented at the March 2nd workshop.

**TID Background**

TID was organized as the first Irrigation District in California on June 6, 1887 and is beginning its 130th year of operation. TID currently serves a retail electric customer base of just over 100,000 customers and provides irrigation water to over 5,800 growers and nearly 150,000 acres of farmland. Of the 11 communities that TID serves, seven are classified as Disadvantaged Communities, and a majority of our service territory is in the top 20% of Cal EnviroScreen 3.0 impacted communities. TID remains committed to working towards the State's climate and clean energy goals while providing reliable, low-cost electricity to our ratepayers

**DISCUSSION**

- 1. The proposed amendment to the use of EDU allowance value should be clarified to state that they are not an exhaustive list of allowed uses. There should be a "catch all" provision that enables EDU's to make timely investments in projects or programs that reduce GHG emissions.**

In the PDD, Staff adds some suggested uses of allowance value that align with the CPUC direction given to IOU's. The added uses are helpful in that they give some regulatory certainty to those uses. However, TID is concerned that the added uses could be construed as an exhaustive list of approved uses because of the addition of the word "must" and "using one or more of the following approaches" in section 95892 (d) (3). Such restrictions would hinder



investment in cost effective emissions reductions measures. TID suggests adding some additional language that would give POU's confidence in investing in projects or programs that aren't listed in the PDD, as long as the projects or programs are consistent with the goals of AB 32 and clearly benefit retail ratepayers.

Staff also requests feedback on the possibility of forbidding "the purchase of allowances using allowance proceeds". This should remain an allowed use of auction proceeds, because it allows EDU's to hedge against volatile emissions profiles from year to year. EDU's must plan for electricity demand, renewables, hydro conditions, and weather, which can all be highly variable. As the last 5 years have shown, and as the effects of climate change continue to make weather, renewables, and electricity demand harder to predict, TID believes it is important to maintain the purchase of allowances from allowance value as an acceptable use. Provided, of course, that the EDU can clearly show that the allowances purchased are applied against retail emissions obligations, or if sold, that the funds were spent consistent with the provisions in section 95892. Further, TID is appreciative of the ARB Staff determining that the forced consignment of POU allowances is not necessary. It is our understanding that POU's outside of the CAISO balancing authority area have incorporated GHG costs into their dispatch protocols, and thus the forced consignment option is not necessary.

**2. The Price Ceiling draft concepts fail to recognize the Legislative intent of AB 398.**

AB 398 requires the ARB to establish a price ceiling, with certain considerations. Namely, the consideration of "[t]he 2020 tier prices of the allowance price containment reserve", which based on administratively determine tier prices will be \$56-\$69/ton, (assuming 2% inflation from 2018 APCR Tiers), which is *WELL* below the prices discussed at the March 2<sup>nd</sup> workshop. The prices being discussed in advance of the passage of AB 398 were in fact, also much lower than the ranges discussed at the March 2<sup>nd</sup> workshop. Staff indicated that, "*the price ceiling value in 2030 would not be lower than the single tier value for Table 2 of approximately \$81.9 (\$2015) and no higher than \$150*". Consider that these values would equate to a ceiling of \$92 in 2021 and \$110 in 2030, assuming a 2% inflation rate. Further, the "maximum price ceiling" (a concept not contemplated by AB 398) of \$150 would translate to \$169 in 2021 and \$202 in 2030 under the same assumptions. It appears that the ARB has taken into consideration "voluntary corporate internal pricing" that can range up to "\$800 internationally and as high as \$150 within the United States". There is no mention of "corporate voluntary pricing" in AB 398, and corporate voluntary pricing should not be accounted for in the price ceilings set in the upcoming rulemaking. The use of corporate price ceilings without further consideration of how those prices were developed and by whom would represent an arbitrary use of the data. More importantly, if these price ceilings are used in the cap-and-trade and prices actually reached these levels, the program would wreak havoc on the California economy. Price ceilings at this level

would not achieve the fundamental statutory purpose of using price ceilings to protect the economy and minimize leakage risks.

TID is a member of the Carbon Markets Compliance Association, and continues to support their recommendation that the price ceiling should be at minimum \$50 but no higher than \$80 in 2021, which would accomplish to serve the legislative direction in AB 398 of:

- Minimizing adverse impacts on California residents and the economy.
- Minimizing economic and environmental leakage.
- Considering the 2020 tier prices of the allowance price containment reserve.

**3. The price containment concepts considered in the Preliminary Concepts Paper will not send the proper market signals or mitigate price volatility.**

AB 398 requires the ARB to establish price containment points, in a manner that is “equitable, seeks to minimize costs and maximize total benefits” (Sec 38562 (b)(1)). In that vein, TID believes that the proposed price containment points are too close to the ceiling. In establishing price containment points, the ARB should design them in a manner that sends the correct market signals, mitigates price volatility, and serves to provide the Legislature, the ARB, and stakeholders a point to review the Cap & Trade Program design. The price containment points should function to slow down a quickly escalating market and evaluate emissions abatement opportunities. At the \$80 point that ARB is suggesting, there is a risk that the economic impacts of the Program will put the program as a whole in jeopardy, which could provide policy makers with a basis to indefinitely suspend the program.

The ARB Staff also seeks input on how to distribute the roughly 52 million 2021-2030 allowances to the Post 2020 reserve. TID believes the most appropriate distribution of these allowances is to split them evenly between the 2 price containment tiers. Distribution in this manner would make the tiers more effective in slowing down potential price spikes, and increase liquidity for compliance entities looking to satisfy their obligations in the face of a volatile market.

**4. TID is opposed to lowering caps, de-valuing pre 2021 allowances, or the placement of expiration dates on banked allowances as some stakeholders have suggested, and supports CARB’s rationale to reject those concerns.**

AB 32 and SB 32 designed the emissions reductions from Cap & Trade to be programmatically cumulative. The very act of setting a cap limits the amount of allowances in circulation, and ensures that emissions reductions counted on to be satisfied through the Cap & Trade program will in fact be realized. Lowering caps, devaluing allowances, and setting expiration dates on

allowances would drive compliance costs up for POUs like TID and its ratepayers, many of whom have made early investments towards post 2020 compliance. Early actors provided much needed liquidity to a fledgling market while the Cap & Trade program was established over the last 5 years. According to the ARB's own analysis, the Electric Sector has by far done more than any other covered sector in reducing emissions. Moreover, the electricity sector is expected to do far more than any other sector, with GHG Reductions in the 2030 Scoping Plan expected to be anywhere from **51-72% below 1990 emissions.**<sup>1</sup> TID appreciates the ARB's recognition that the Cap & Trade program is working as intended, and that any of the three actions suggested by stakeholders above will penalize early action, introduce uncertainty, and ultimately drive costs up for consumers.

### Conclusion

TID appreciates the ARB Staff's efforts to address the AB 398 statutory direction, and the thoughts provided in the both draft discussion documents and the March 2<sup>nd</sup> workshop. TID looks forward to working with the Board and Staff going forward in crafting regulations that keep compliance costs low, increase liquidity, and provide flexibility while ensuring the State is on track to meet its environmental objectives.

Sincerely,



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Dan B. Severson

Turlock Irrigation District

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<sup>1</sup> [https://www.arb.ca.gov/cc/scopingplan/scoping\\_plan\\_2017.pdf](https://www.arb.ca.gov/cc/scopingplan/scoping_plan_2017.pdf) page 31