January 20, 2017

California Air Resources Board
1001 I Street
Sacramento, CA 95812

**Re: Utility Recommendations to Improve Implementation of the Renewable Portfolio Standard Adjustment Under the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions and Cap-and-Trade Program**

Dear California Air Resources Board:

Thank you for the opportunity to comment on the proposed amendments to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (MRR). The following nine utilities are jointly submitting these comments on the Renewable Portfolio Standard (RPS) adjustment under the MRR and cap-and-trade program: Los Angeles Department of Water and Power, Modesto Irrigation District, M-S-R Public Power Agency,[1] Pacific Gas and Electric Company, Sacramento Municipal Utility District, San Diego Gas & Electric Company, Southern California Edison Company, Southern California Public Power Authority, and Turlock Irrigation District. We are also jointly submitting these comments as part of the proceeding on the proposed amendments to the cap-and-trade regulation.

We recommend that the California Air Resources Board (ARB) take the following three complementary actions to improve implementation of the RPS adjustment. These three complementary actions avoid double counting, improve workability, and protect California

[1] The M-S-R Public Power Agency is a public agency formed by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding, authorized to acquire, construct, maintain, and operate facilities for the generation and transmission of electric power and to enter into contractual agreements for the benefit of any of its members.

electricity consumers from unexpected cap-and-trade compliance costs for their substantial investments in renewable electricity generated outside of California.

**<u>Action 1</u>: Revise Section 95852(b)(4)(D) of the Cap-and-Trade Regulation to Replace "Directly Delivered" with "Claimed as a Specified Import"**

Currently the cap-and-trade regulation prohibits the RPS adjustment from being claimed when electricity from an eligible renewable energy resource is directly delivered to California. This is too broad and should be narrowed. This will address ARB Staff's concerns about double counting the zero emission attribute of electricity produced by a renewable generating facility between specified imported electricity and the RPS adjustment.

We propose that ARB revise Section 95852(b)(4)(D) of the cap-and-trade regulation as follows:

(D) No RPS adjustment may be claimed for **<u>the portion of electricity from</u>** an eligible renewable energy resource ~~when its electricity is~~ **<u>that is claimed as a specified import</u>** ~~directly delivered~~.

We propose this revision for the following reasons:

- The potential for double counting of the zero emission attribute exists only when directly delivered electricity meets all the requirements to be claimed as specified. The zero emission factor cannot be claimed for directly delivered electricity that was purchased as unspecified. Therefore, Section 95852(b)(4)(D) should be narrowed to only electricity that is claimed as specified rather than all electricity that is directly delivered.

- The revision aligns with the MRR's contract-based framework to differentiate specified from unspecified electricity. To claim imported electricity from a renewable generating facility as specified with a zero emission factor, the electricity must be directly delivered from the generating facility into California either by a Generation Providing Entity (GPE) or a purchaser whose contract specifies the renewable generating facility as the source. Directly delivered electricity from the same facility that was purchased as unspecified electricity on an exchange cannot be claimed as specified with a zero emission factor because it does not satisfy the specified source contract requirement.

- The revision improves the workability of the RPS adjustment provision by narrowing the scope of the search criteria. To avoid double counting the zero emission attribute, reporting entities should only have to look for electricity that can be claimed as a specified import rather than every e-tag that originates from the renewable generating facility.

**Action 2: Allocate Supplemental Allowances to Compensate for RPS Adjustment Credits that a Utility Has Been Unable to Claim**

If an Electrical Distribution Utility (EDU) that owns Portfolio Content Category 2 (PCC2) or Portfolio Content Category 0 (PCC0) (i.e., grandfathered) renewable energy credits (RECs) associated with a contract for firmed and shaped RPS eligible electricity was unable to claim the RPS adjustment credit, then ARB should provide the EDU with a supplemental allocation of allowances. This will protect California electricity customers from unexpected cap-and-trade compliance costs for the RPS eligible electricity. This should occur regardless of whether another entity claimed electricity from the renewable generating facility as a specified import or the EDU was unable to satisfy the burden of proof under the RPS adjustment guidance.

We propose a supplemental allocation for the following reasons:

- The original allocation of allowances to EDUs for protection of California electricity customers assumed that all RPS eligible electricity would be treated as zero emission for cap-and-trade compliance purposes. The RPS adjustment implements that policy decision by providing a credit to reduce the cap-and-trade compliance obligation for firmed and shaped RPS eligible electricity that is not directly delivered. If an EDU was unable to claim the RPS adjustment credit to reduce its cap-and-trade compliance obligation, then the EDU will incur cap-and-trade compliance costs that were not anticipated when ARB determined the original allocation of allowances to the EDU.

- The supplemental allocation for the unclaimed RPS adjustment is similar in concept to the true-up allocation that provides industrial entities additional allowances to account for changes in production or allocation not properly accounted for in prior allocations. The supplemental allocation for the unclaimed RPS adjustment should be a one-for-one allocation without any discounts to ensure that the supplemental allocation is equivalent to what the EDU would have received had it been allowed to claim the RPS adjustment.

- The supplemental allocation for the unclaimed RPS adjustment would work as follows: An Electric Power Entity (EPE) would use a new "unclaimed RPS adjustment" tab added to the EPE reporting spreadsheet (Workbook 1) to report PCC2 or PCC0 RECs for firmed and shaped RPS-eligible electricity that could not be claimed for the RPS adjustment. The verifier would check this data and review the documentation as part of verifying the annual EPE report. The number of allowances needed for the supplemental allocation would be calculated as the quantity of RECs on the "unclaimed RPS adjustment" tab multiplied by the emissions factor for unspecified electricity, which is the same way that the RPS adjustment would have been calculated. The allowances for the supplemental allocation would come from the pot of state-owned allowances. The supplemental

allocation would be provided to the EDU along with its normal allocation of allowances in October.

- ARB should continue to provide EDUs with the flexibility to “bank” and claim the RPS adjustment at a later date, after the RECs have been retired for RPS compliance. We would like to meet with ARB Staff about the mechanics and timing for integrating a supplemental allocation into the process.

**Action 3: Retain the Requirement in Section 95852(b)(3)(D) of the Cap-and-Trade Regulation to Report and Verify REC Serial Numbers for Quality Control**

We believe that ARB should retain the requirement to report and verify REC serial numbers under Section 95852(b)(3)(D) of the cap-and-trade regulation for the following reasons:

- The REC serial number data is necessary for quality control by ARB to verify claims of specified source imports and the RPS adjustment and to ensure no double counting.

- The REC serial number information is essential for proper accounting of zero emission renewable electricity. There is one and only one REC issued for each megawatt hour (MWh) of electricity produced by a renewable generating facility, so review of the REC data is essential to ensure that each MWh is counted only once. If the requirement to report and verify REC data for specified imports is deleted, ARB will not have the information necessary to perform a quality control check on specified imports of electricity from renewable generating facilities.

Thank you for your consideration of these comments, and for the ongoing opportunities to provide input on strengthening the MRR and cap-and-trade program.

Sincerely,

1. Los Angeles Department of Water and Power
2. Modesto Irrigation District
3. M-S-R Public Power Agency
4. Pacific Gas and Electric Company
5. Sacramento Municipal Utility District
6. San Diego Gas & Electric Company
7. Southern California Edison Company
8. Southern California Public Power Authority
9. Turlock Irrigation District