TURLOCK IRRIGATION DISTRICT

October 22, 2018

Clerk of the Board
California Air Resources Board
1001 I Street
Sacramento CA 95814

Filed Electronically

RE: TID Comments on the 45 day Cap-and-Trade Regulatory Amendments Noticed on September 4th, 2018 reflecting AB 398 provisions.

Turlock Irrigation District ("TID") submits the following comments on the California Air Resources Board ("CARB") September 4th proposed regulatory amendments to the Cap-and-Trade. TID supports most of the regulatory amendments. CARB Staff is to be commended for their efforts in balancing stakeholder concerns and legislative intent of AB 398. In summary, TID generally supports the proposed cost containment measures (price ceiling, Tier I and Tier II), as well as CARB Staff's finding that the "overhang" of allowances in no way threatens the long term environmental integrity of the Cap & Trade Program. A well supplied, liquid Cap & Trade Program remains the most cost effective way to ensure that the State reaches very challenging 2030 and 2050 GHG reduction goals. TID does have some concern with ARB's newly crafted Energy Imbalance Market (EIM) GHG Accounting methodology, as well as some suggestions on the price ceiling and placement of the Tier I and Tier II pricing.

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, 7 are classified as Disadvantaged.

TID's mission is to provide stable, reliable, and affordable water and power to its customer owners, be good stewards of our resources, and provide a high level of customer satisfaction.

TID is one of eight Balancing Authorities in California, tasked with balancing retail demand, generation, and wholesale purchases and sales while providing adequate reserve capacity to maintain reliability.

TID has a long history of environmental stewardship, beginning when the District was formed, as we acquired some of the oldest water rights on the Tuolumne River. TID has a great track record of caring for natural resources. TID is the majority owner and project manager of the Don Pedro Dam and powerhouse, providing irrigation water and 203 MW or, on average, 400,000 megawatt-hours of emissions free energy to our customers, while providing flood control and environmental benefits for the region.

TID has already acquired the resources to meet the 33% by 2020 Renewable Portfolio Standard (RPS). The acquisition of a 136 MW wind farm in 2009 in advance of the RPS mandate on POU's, as well as the recent finalizing of a 20-year power purchase agreement for 54 MW of newly constructed in-state utility scale solar, should satisfy TID RPS procurement requirements through 2024. TID has a diverse portfolio of RPS eligible resources, including wind, small hydro, geothermal, and solar.

In addition to providing these individual comments, TID also supports the comments of the Joint Utilities Group and the California Municipal Utilities Association.

DISCUSSION

1. TID supports a price ceiling that floats at a flat $60/MT above the price floor

Language in AB 398 directs the establishment of a price ceiling where the "state board shall consider, using the best available science, all of the following:

- The need to avoid adverse impacts on resident households, businesses, and the state's economy.
- The 2020 tier prices of the allowance price containment reserve.
- The full social cost associated with emitting a metric ton greenhouse gases.
- The auction reserve price.
- The potential for environmental and economic leakage.
- The cost per metric ton of greenhouse gas emissions reductions to achieve the statewide emissions targets established in Sections 38550 and 38566."

TID appreciates how much time, effort, and stakeholder input was considered in establishing the proposed price ceiling. Staff's proposal goes a long ways towards balancing setting the price ceiling too low, as to not incentivize real emissions reductions innovation, and too high, which, especially in the later years of the Program (2027-2030), could make the Program an economic and political pariah while having the high potential to cause emissions leakage. As proposed, the price ceiling could diverge significantly between floor and ceiling, causing uncertainty and, in effect, a doubling of the inflationary piece of the rise in the Reserve Price. The 5% + Core Price of Inflation (CPI) would make both the floor and ceiling rise according to that formula. Locking in the price ceiling at a fixed amount above the floor ensures that inflationary effects are counted only once. The flat $60 adder would help long term planning entities like TID plan for the cost of future emissions reductions. This is especially important in the later years of the program, when the Program as a whole will see a tightening in allowance supplies, while also ensuring that the Cap & Trade Program has sufficiently high market prices to "achieve the [2020 and 2030] statewide emission reduction targets established in Sections 38550 and 38566."[1]

2. **TID supports Tier I and Tier II "speed bump" pricing to be equidistant (1/3, 2/3) between the price floor and price ceiling.**

CARB Staff proposes that the Tier I and Tier II pricing start at the "halfway point between of the Auction Reserve Price and the price ceiling in all years (starting in 2021)" and that the "second new post-2020 Reserve tier price fixed at the three-quarter point of the Auction Reserve Price and the price ceiling in all years (starting in 2021)".[2] TID understands that CARB Staff has determined that the proposed Tier prices are in line with the "window of price expectations"[3], and that maintaining that continuity is important to those entities that have taken early action to reduce emissions. However, CARB Staff has full discretion to "[e]stablish two price containment points [new post-2020 Reserve tiers] at levels below the price ceiling."[4] TID believes the two price containment points should be set at a level that "minimizes costs and maximizes benefits for California's economy"[5], and should therefore be set evenly between the Auction Reserve Price and the Price Ceiling (which would be at the previously recommended $60 above the Auction Reserve Price). When put too close to the price ceiling, the price containment points lose their effectiveness, and are less likely to prevent an extreme run on the market, which the price containment points are designed to do.

3. **TID supports CARB Staff finding that there is no "overallocation", and that the stringency of the cap provides the necessary constraint on emissions in order to achieve the 2030 goal.**

TID agrees with the analysis in Appendix D of the ISOR. The design of the Cap & Trade Program ensures that carbon prices escalate while emissions reductions are ensured through the Cap itself. Staff correctly points out that allowance adjustments in the Regional Greenhouse Gas Initiative (RGGI) and the European Union Emissions Trading Scheme (EU ETS) were necessary because of the absence of (EU ETS) or low (RGGI) floor prices that provided no incentive for early action. TID applauds Staff for not reacting to unsubstantiated claims about the environmental integrity of the Cap & Trade program, and the pragmatic analysis presented in Appendix D, which include third party allowance price forecasts that all support consistent findings of 1) a cumulative shortage

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[1] Health & Safety Code § 38562(c)(2)(A)(VI).

[2] Ct18isor, p. 29.

[3] Ct18isor, Figure E, p. 35.

[4] Health & Safety Code § 38562(c)(2)(B).

[5] Health & Safety Code § 38501(h).

of allowances in the Mid 2020's and, 2) that estimated allowance prices will steadily increase out to 2030.[6]

4. TID supports the current "bridge solution" to EIM GHG accounting.

TID supports the Joint Utility Group (JUG) letter laying out the specifics of Utility concerns with the "proposed" solution. TID, as a California Balancing Authority, and while not currently participating in the EIM, TID is evaluating the benefits of joining the EIM. TID is concerned that, in the middle of a potential decision to join, that unanticipated, unrecoverable costs could be put on TID ratepayers, diminishing the potential benefits of TID's participation in the EIM. TID is also concerned that if it joins the EIM, it could be faced with a situation where it sees a considerable decline in its EDU allowance allocations that may lack a nexus to its actual participation in the EIM (for example, if the "outstanding emissions obligation" were assessed on a retail load share basis). The ARB should continue to work with the CAISO to develop a market-based solution and until further market refinements can be completed, the ARB should extend the existing "bridge solution" indefinitely.

TID appreciates the opportunity to submit these comments.

Respectfully Submitted,

/s/

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/s/

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Turlock Irrigation District

[6] Ct18isor, Appendix D, p. 14.