Valley Electric Association, Inc.

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Valley Electric Association Comments to the California Air Resources Board on 2016 Amendments to the Cap and Trade Regulation

9/19/16

Valley Electric Association (VEA), Inc. appreciates the opportunity to provide input to the California Air Resources Board (CARB) on its consideration of possible amendments to the Cap and Trade program.

VEA is a small electric cooperative utility, primarily serving load in Nevada. VEA, recognizing the benefit of regional cooperation, was a first-mover in transitioning the service of its Nevada load into the CAISO as a Participating Transmission Owner (PTO) and a CAISO Load Serving Entity (LSE) in 2013. Through the CAISO, VEA serves on average 60 MW/hour of load spread through southern Nevada. VEA services its load through federal river project hydroelectricity, pooled supply agreements with other cooperatives, and economy energy purchases outside of California. Since 2013, VEA has served its Nevada load through CAISO imports at Mead – a delivery point located outside of California. VEA works diligently to balance its electricity supplies to its load. On an annual basis, VEA's imbalances which now flow through the CAISO's markets, have been a small fraction of VEA's total Nevada load.[1]

Valley Electric offers some overall comments, written collectively for the policy making processes in both the cap and trade and the MRR program. They are written collectively because collectively the policies, coupled with their implementation, are falling short of achieving reasonable outcomes with respect to serving non-California load through the California (CAISO). In these comments, we discuss the problem and offer several remedies for CARB's consideration in its 2016 policy changes, remedies which include (1) adding provisions to allow entities serving non-California load through the CAISO an ability to balance their loads and resources without the full burden of presumed sourcing from, and sinking in, California, and (2) issuances of a small number of allowances to offset CARB carbon costs being imposed on non-California load being served through the CAISO.

Problem Definition: CARB policies do not properly address the service of non-California load through the CAISO.

There are several ways in which the existing policies and frameworks improperly treat non-California load.

[1] For example, on net VEA had approximately 1% imbalances for its Nevada load served through the CAISO in 2015.

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CAISO Tagging Methods and Market Model assume imports only for California load and exports only from California Generation

When cap and trade came into effect, the Energy Imbalance Market (EIM) did not exist. The convention adopted by CARB via cap and trade and MRR assigned responsibilities for imported power based on scheduled power flows (e-tags.) Under this approach, all CAISO load is effectively considered to be California load. With the inception of the EIM, CARB modified its regulations to address power imported to the state via the EIM. Imports to California under the EIM are not identified based on schedules, but are instead attributed to California load based on an algorithm that recognizes that not all energy being used in the EIM is flowing to California load.

With discussions of a regional power market, there is growing awareness that the existing regulatory provisions for accounting for electricity imported into the state and associated emissions will not work in a multi-state market. Specifically, as the CAISO indicates in its recent Regional GHG issue paper, the approach currently used for accounting for imports in the day-ahead markets based on e-tags will not work within a multi-state balancing authority model.[2] In fact, the CAISO already operates as a multi-state balancing authority; it has since VEA joined the CAISO as an LSE and a PTO in 2013. The CAISO indicates in its paper that it operates a single balancing authority even with the participation of VEA.[3]

CARB's current accounting rules treat all external supply scheduled into CAISO in the day-ahead and real-time markets as serving California load, and thus subject such supply to obligations under the cap and trade and reporting regulations. Because the CAISO market model does not distinguish between delivery points within the state boundary, and delivery points outside the state, there is no mechanism within CARB's current e-tag based accounting scheme to either (1) recognize that VEA's energy flowing through the CAISO market does not all go to California and (2) recognize that some of the energy serving VEA's CAISO market purchases comes from outside of California. The CAISO in its regional paper recognizes this.[4]

As a result, VEA has to pay a carbon premium for energy delivered *through* the CAISO market and into Nevada. This is in direct opposition to legislative and regulatory intent that only imported electricity that that serves California load be subject to carbon obligations.[5]

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[2] Regional Integration California Greenhouse Gas Compliance issue paper, CAISO, August 29, 2016 (http://www.caiso.com/Documents/IssuePaper-RegionalIntegrationCaliforniaGreenHouseGasCompliance.pdf), p. 3).

[3] *Id.*, FN 9.

[4] *Id.*, p. 10.

[5] CARB's existing definition for imported electricity reads: "Imported Electricity" means electricity generated outside the state of California and delivered to serve load located inside the state of California. Imported electricity includes electricity delivered across balancing authority areas from a first point of receipt located outside the state of California, to the first point of delivery located inside the state of

VEA's service through the CAISO is only to serve its Nevada load, yet VEA is exposed to carbon costs through the CAISO and through CARB

VEA's deliveries to the CAISO are only intended to serve its non-California load: before VEA joined the CAISO it imported no electricity into the CAISO. VEA has no business model to import energy to the CAISO for profit; VEA makes best efforts to reduce any residual energy absorbed by the CAISO net of its load and to minimize purchases from the CAISO, and from a physical point of view, any residual energy of VEA's most likely never flows to California.

VEA is subjected to carbon costs for energy delivered through CAISO for its Nevada load but does not receive allowance allocations to compensate its customer for these costs

CARB provided no carbon allowances to VEA to relieve the costs associated with servicing its Nevada load from energy imported to and delivered through the CAISO. Whereas CARB provides allowances to offset the costs of the cap and trade program on California retail customers, CARB provides no allowance value to offset the carbon costs for VEA's Nevada customers. Thus, VEA bears the burden of the full carbon costs for energy that service VEA's Nevada load from the CAISO market despite that the regulations call for excluding carbon charges if such energy was imported.

GHG accounting rules discriminate against non-California load served through the CAISO relative to non-California load served through the EIM, and relative to California load served through the CAISO

CARB's current GHG accounting rules directly discriminate against non-California load being served through the CAISO. VEA is being discriminated against vis-à-vis other entities in two respects.

1. For EIM Participants, there is recognition of, and accounting for the reality that, the service of the participants' imbalance through the CAISO market at times comes from an out-of-state resource that does not bear the cost of carbon. Because VEA participates in the CAISO, rather than the EIM, CARB assigns a carbon obligation for ***every*** MW that serves VEA's load whether or not it came from a California source.

California, having a final point of delivery in California. ...Imported electricity does not include electricity imported into the CAISO balancing authority area to serve retail customers that are located within the CAISO balancing authority area, but outside the state of California." Section 95802 – Definitions.

2. For other load served by CAISO, CARB has provided allowances to offset the cost impact of the cap and trade program to retail end users.[6] CARB is treating VEA as a covered entity for its service of its Nevada load, yet CARB has not provided any allowances to VEA to offset the carbon costs on its customers that are being imposed in the service of its Nevada load[7] through the CAISO even though CARB policies call for such allocations.[8]

It is not just nor is it good policy for California to continue to impose carbon costs in this way on an entity serving non-California load through the CAISO. To continue to not find a remedy is squarely in the face of the intent of the cap and trade program and perpetuates discrimination toward one small entity that chose to be a first-mover in the movement of regional efficiency.

The improper treatment and disparity must be remedied at this time

VEA, a small electric cooperative, was the first mover in what is now clearly acknowledged as path to improved efficiency and ultimately to reductions in the West's carbon emissions via a regional energy market. CARB would not have expected those forming the EIMs to pay carbon costs on all the MWs that are served through the CAISO-run markets. Similarly, it would be very inappropriate to charge carbon on all the MWs served through the ISO-operated regional market.
There seems to be some presumption on the part of CARB that VEA receives some benefit from participating in the CAISO market that should make it worthwhile for VEA to pay these costs; however, such a standard is not imposed on EIM members, nor is it expected to be imposed on other regional participants.

[6] See for example CARB's Final Statement of Reason related to allocation of allowances, which noted a main driver of the allocation recommendation was to offset costs for customers/ratepayer cost burden. (See for example p. 5 of Appendix A, Staff Proposal for Allocating Allowances to Electric Distribution Utilities, dated July 2011.) Note that there is no indication that only California Electric Distribution Utilities merited allowances and that the customers of non-California utilities are expected to bear the costs of California's cap and trade program.

[7] VEA historically has received a very small number of allowances for its approximately 1 MW/hour of California load. VEA's allowance allocation did not increase with CARB covering its service of its Nevada load through the CAISO.

[8] See Section 95890 – General Provisions for Direct Allocation, part (b) states that "an electric distribution utility that is a covered entity shall be eligible for direct allocation of California GHG allowances...".

VEA finds it inconceivable that CARB would continue to treat VEA in such a discriminatory and inappropriate manner. The CAISO also believes that a remedy should be found as soon as possible.[9]

CARB has told VEA in the past that it has to follow its existing policies and must make VEA report in the way that CARB has directed. Yet as described above, CARB's directives cannot ensure that CARB is not violating its own existing policies.[10] CARB has also indicated that it could address these disparities in this upcoming rulemaking. The time is now.

Remedies are available

VEA believes the ultimate remedy is for CARB to work with the CAISO to revise the market design to be robust to account for California and non-California load.

In the interim, CARB has several options to remedy the inappropriate treatment of VEA, all of which would be consistent with the goals of the cap and trade and reporting regulations. That is, none of the changes VEA is requesting are intended to avoid any net carbon obligation or to advantage VEA relative to other CAISO participants or CARB covered entities.

VEA is submitting comments in response to both the cap and trade policies and the MRR policies with alternative approaches in the respective comments.

VEA requests the following revisions be made to accommodate non-California load participating in the CAISO.

The staff has proposed explicit provisions of netting in Section 95111(12)(D) as follows: "(D) Netting of electricity across intervals is prohibited in the calculation of reportable CAISO sales. Excess electricity sold into the CAISO markets in any interval cannot be netted against the electricity purchased from the CAISO markets a different interval."

To the extent CARB is not in agreement that VEA's CAISO transactions should be exempt entirely from compliance obligations until such time as a regional market and compliance design does not create an burden for those serving non-California load through the CAISO that well exceeds their incremental carbon impact in California, VEA requests that this additional provision be included in the staff-proposed part (D):

"Netting of electricity across intervals is permitted in the calculation of reportable CAISO sales as follows for entities serving non-California load. Excess electricity sold into the CAISO markets in any interval can~~not~~ be netted against the electricity

[9] CAISO comments regarding the Public Workshop on Potential 2016 Amendments to the Cap-and-Trade Regulations and California Plan for 111(d) Compliance, dated October 19, 2015, pp. 1-2.

[10] Both because when there are imports used to serve VEA's imbalances they are not being exempted from carbon and VEA is not receiving this benefit. Also because CARB has developed policies that are intended to provide allowances to those retail end users covered by the policies, yet CARB has instructed VEA to report for its Nevada load yet provides those retail customers no allowances.

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purchased from the CAISO markets at different interval within the same year to the extent that netting does not exceed 10% of the entities' annual non-California load served through the CAISO."

Allowing such entities to net up to 10% of their non-California load provides some ability to the entities to balance their load in the CAISO, and it recognizes that not all excess electricity provided back into the market serves California load. Even with such a netting proposal, any deliveries to the CAISO markets in excess of the entities' non-California load – when measured over the year – would be subject to a carbon obligation. Thereby, such a modification will not result in any net deliveries to the CAISO markets being exempt from carbon accounting.

VEA also respectfully requests that CARB increase the allocation of allowances to VEA in recognition of (1) the inapplicability of the cap and trade program to VEA's service of its non-California load through the CAISO, and (2) the disparity between the treatment of VEA in the service of its non-California load through the CAISO, and those entities that serve California load through the CAISO and are allocated allowances to offset the cap and trade program cost burden on retail customers.

VEA requests that CARB provide allowances to VEA to cover the historical carbon cost of VEA's service of its non-California load through the CAISO market during intervals when VEA's electricity supplies are insufficient to cover its load, but not at levels to exceed 10% of VEA's total non-California load service.

Such an allocation to VEA - until such time as the treatment of VEA's non-California load can be addressed through a workable regional market design that properly addresses the service of non-California load - will result in a de minimis impact to the overall allocation of allowances. As indicated above, VEA's non-California load is on average 60MWs/hr. Even if VEA was to request up to the full proposed cap of 10% of this level to offset CAISO balancing energy for its load, this would equate to allowances to cover carbon costs on 6 average MWs per year. Providing allowances to VEA for this reason offers an entirely reasonable means to mitigate the impacts of the misaligned carbon policies until a regional multi-state method can be adopted.

VEA urges CARB to consider carefully the comments herein and to take action to remedy the improper application of CARB's policies to VEA, the first non-California/non-EIM participant in the CAISO's expanding regional market.

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