

April 15, 2016

Ms. Rajinder Sahota  
Chief, Climate Change Program Planning & Management Branch  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

***Filed Electronically***

**Re: Modesto Irrigation District's Comments from the March 29, 2016 Workshop on Cap-and-Trade Regulation Post-2020 Emissions Caps and Allowance Allocation**

Dear Ms. Sahota:

The Modesto Irrigation District (MID) welcomes the opportunity to present our comments on the topics presented by the Air Resources Board (ARB) during the March 29, 2016 workshop. Our primary area of concern is ARB's proposal to redirect free allowances for purchased electricity away from Electric Distribution Utilities (EDUs) to industrial entities, while the EDUs' compliance obligations remain unchanged. We believe this proposed change to allowance allocation is inconsistent with ARB's goals of supporting investment in emissions reduction activities and maintaining stability of electric energy rates, and would unnecessarily require cumbersome changes in business practices for MID and for other Publicly Owned Utilities (POUs).

**Electricity Rate Increases**

Direct allowance allocation to industrial entities for purchased electricity would require electricity rate increases to customers of POU's. The purpose of direct allocation to EDUs is to, "ensure that electricity ratepayers do not experience sudden increases in their electricity bills associated with the cap-and-trade regulation."<sup>1</sup> However, if allowances are allocated to industrial entities directly for their purchased electricity, instead of to the EDUs that serve these industrial entities' load and that retain the compliance obligation for that load, POU's will need to develop a means to meet the increased compliance costs. These increased compliance costs will result in increased rates for those customers that receive free allowances directly. Thus, direct allocation of allowances offsets the cost of the emissions generated by the EDU serving an industrial customer's load regardless of whether the allowances are: (1) given to the EDU, or (2) given to the industrial entity that purchases the energy. However, the latter requires more administrative burden on POU's to ensure that the full cost of Cap-and-Trade compliance is passed on to only those customers affected by this change.

Also, because entity compliance obligations can change over time, entities could possibly receive more or less benefit from allowance allocation than they deserve. Take for example an industrial electricity customer in MID's service territory that has no compliance obligation. This customer would receive reduced electric energy bills from MID resulting from the free allowances MID retired to meet its

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<sup>1</sup> California Air Resources Board; *Staff Report: Initial Statement of Reasons*; p. II-28; found at: <http://www.arb.ca.gov/regact/2010/capandtrade10/capisor.pdf>

compliance obligation or used to fund various emissions reduction activities. If that customer grows to the point that it now has a cap-and-trade compliance obligation and receives allowances directly for its purchased electricity, it will receive the benefit from both the allowance value and the lower electricity bills. This customer would be “double-dipping” free allowance benefits. Correcting such an issue would require the industrial entity to report its change in status to MID. MID would then need to adjust its rate structure accordingly to correct the issue. The opposite scenario also applies, in which the industrial entity receives no free allowance benefit. Enabling the proposed adjustment to allocation would pose a significant administrative burden and would be neutral in benefit to the industrial entities versus the current system.

Additionally, relying on forecasted industrial load to determine future EDU sector allocations could contribute to over/under allocation. Because industrial load growth varies widely between EDUs, applying a single load growth assumption to all EDUs would produce winners and losers. EDUs with higher actual industrial load growth than projected would be harmed, while those with lower growth would benefit.

### **Reduced Funding for Emissions Reduction Programs**

Direct allowance allocation to industrial entities for purchased electricity would reduce funding for emissions reduction programs. According to §95892(a) of the Cap-and-Trade regulation, “any allowance allocated to electrical distribution entities must be used exclusively for the benefit of retail ratepayers of each such electrical distribution utility, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers.” If instead these allowances are given directly to covered industrial entities, their value will shift from programs supporting electric customers and the goals of AB 32 to industrial entities’ sources of revenue. This would be contrary to ARB’s demonstrated goal of driving as much emissions reduction investment as possible. Even if the industrial allocated allowances are distributed with similar usage restrictions to EDU allocations, EDUs are historically better positioned to implement broad emissions reduction programs than individual industrial companies. The value of free allowances that POU’s employ to fund emissions reduction activities is spread amongst each of the POU’s electric customers. As such, each electric customer receives a benefit from the POU’s free allowances. If covered industrial entities were to receive their free allowance benefit from directly allocated allowances while receiving the benefit of the POU’s emissions reduction programs, then this would present another case of “double-dipping” free allowance benefits. These industrial entities must then pay their fair share to support the POU’s allowance-funded programs. The necessary allocation of program costs per customer would be difficult to allocate equitably, and for some types of projects, even impossible. Such an allocation would also likely contribute to the effect on the “winners and losers” discussed above.

### **Costs of Direct Allowance Allocation**

The costs of direct allowance allocation to industrial entities for purchased electricity outweigh the benefits. In summary, the benefits of direct allowance to industry seem only to be:

- More similar treatment of POU customers to investor-owned utility customers; and,
- Industrial customers get better information on the benefit they receive from free allowances.

Whereas, the costs would include:

- Increased rates for individual POU industrial customers to account for allowances needed to cover the emissions associated with these customers' purchased energy;
- POUs would need to keep track of which of their industrial customers are cap-and-trade covered entities;
- POUs would need to ensure that free allowance-funded emissions reductions programs benefit all electric customers equally, and that industrial customers are not able to "double-dip";
- Unnecessary complication of POU cost of service models;
- Allowance value that would ordinarily be used for the benefit of electric customers and to fund emissions reduction activities would be used at will by industrial companies;
- Electricity purchase and sales data would need to be verified by a third-party to satisfy new Mandatory Reporting Regulation (MRR) accuracy requirements; and,
- Utility-specific emission factors would need to be developed and maintained to recognize zero-emitting resources in the product and energy benchmarks.

MID believes, in comparison with the costs, a shift in allowance allocation from EDUs to industrial entities provides little benefit to any party. We request that allowances attributed to electricity purchased by industrial entities remain allocated to EDUs.

### **Electrification**

Electrification, in the transportation sector and others, will be a large factor in load growth in the coming years. MID is intrigued by ARB's proposed idea in which an after-the-fact validation of electrification-based load growth will determine allowance allocation for subsequent years. MID has not yet seen significant penetration of electric vehicles (EVs) in its service territory and does not currently have a means of providing evidence to verify EV load. We recommend that ARB incorporate the methodology described in Section 95491(a)(3)(D) of the Low Carbon Fuel Standard regulation into the "evidence-based allocation" mechanism within MRR and/or Cap-and-Trade to account for increased electrification. ARB's access to Department of Motor Vehicles (DMV) and California Vehicle Rebate Project (CVRP) data provides the best method for reliably estimating non-metered EV load in our service territory.

MID appreciates the opportunity to submit these comments. We are committed to continued cooperation with ARB and our peers in the industry to lead the nation's efforts to economically reduce the impact of energy production on our health and environment for the benefit of our electric customers.

Sincerely,



Greg Salyer  
Interim General Manager  
Modesto Irrigation District