M-S-R Public Power Agency

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September 15, 2014

Mary D. Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: **M-S-R Comments on Proposed Amendments to the Mandatory Reporting Regulation**

Dear Ms. Nichols:

M-S-R Public Power Agency (M-S-R)[1] appreciates the opportunity to address the California Air Resources Board (CARB) regarding the proposed amendments to the Mandatory Reporting Regulation (MRR), released on July 29, 2014. M-S-R wishes to express its appreciation for the time that CARB staff has spent meeting and talking to M-S-R regarding the proposed amendments, and the willingness of staff to work with stakeholders to address the concerns raised relevant to the practical implications of the suggested revisions. In these comments, M-S-R discusses these issues, and proposes options that would meet the stated objectives of the proposed revisions.

M-S-R urges the Board to direct that the proposed amendments be revised to: (1) allow the continued use of the transmission loss factor of 1.0 subject to confirmation of the treatment of losses; (2) tailor the requirements for EDU reporting of annual sales into the CAISO to entities that do not consign all of their freely allocated allowances into the limited use holding account, limit the applicability to electricity not covered by section 11.29 of the ISO tariff, and clarify the

1 Created in 1980, 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. M-S-R is 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.

use of emissions factors for system power; and (3) create a definition for "sales into the CAISO" that accurately captures the intent of the regulation.

Section 95111(b)(2) – Calculating GHG Emissions – Transmission Losses

Staff has proposed utilizing a single transmission loss factor of 1.02, rather than the current definition that allows for the use of either 1.0 or 1.02, depending upon the point at which the transaction is measured. M-S-R opposes elimination of the 1.0 factor, and notes that requiring all transactions to report 1.02 would inflate not only compliance costs, but the overall GHG inventory. M-S-R understands that CARB wants to be assured that transmission losses are accurately accounted for, but object to the arbitrary imposition of a 2% adder as the way in which to do so.

The line losses, typically referred to as Real Power Losses in the transmission providers Open Access Transmission Tariffs (OATTs), are not always treated the same way. Indeed, losses from a specified resource located outside of California and imported to California are handled in a number of ways or methods. Many of these losses are financially settled, with the underlying contracts specifying the source of the electricity that was used to account for the losses. As such, the application of a 2% adder would overstate the emissions associated with the transaction. For example, the quantity of electricity imports from the San Juan Generating Station (with an emissions factor of 1.08 MTCO2e/MWh) to the CAISO grid is the same MWh amount as what is measured at the busbar. Therefore, applying a 1.02 multiplier overstates not only the total emissions, but where those emissions come from, as applying a 1.02 multiplier to the EF of San Juan assumes the transmission losses are made up with San Juan generation, when they actually come from the transmission provider's system. This information can be verified by looking at the underlying agreements, and as such should assuage staff's concerns regarding a means by which to confirm that the losses have been accounted for.

To ensure the accuracy of the reported data, and neither over nor understate the emissions at issue, specified resources should be able to select how losses associated with their imports are settled, and provide contracts or other settlement documents to the Third Party Verifier to confirm the manner in which the losses were addressed. These losses are generally addressed in one of the following manners:

For "in kind returns," where the return of losses based on a calculated amount usually defined by a loss factor in the Transmission Providers OATT multiplied by the MWh quantity on a NERC e-tag during a particular time period, and the calculated amount of energy associated with the Real Power Losses is returned to the transmission providers system by either a generation resource within that system or a scheduled import to that system, the reporting entity should be able to provide the Third Party Verifier the transmission contract demonstrating the election of this option and validate the In Kind Return schedules of energy if the claim is for a source lower than the EF of the Specified Source.

For "Simultaneous Loss Paybacks" transactions, where Real Power Losses are calculated either by the Transmission Providers OATT or a specific contract related to the specified resource, and its delivery point and the generation scheduled at the point of delivery (on the NERC e-tag) is less than the amount generated by the resource with the excess allowed to flow into the Transmission Providers system to compensate for the Real Power Losses, the reporting entity should be able to show the Third Party Verifier a busbar amount that is greater than the NERC e-tagged amount, or a contractual arrangement where the accounting for losses is tracked. In this case the Real Power Losses associated with imports to California should be calculated by multiplying the Import quantity by the 1.02.

Finally, in instances where the losses are addressed by "Financial Settlement," where a calculated amount for Real Power Losses is determined in accordance with the Transmission Provider's OATT, and the applicable loss factor and MWh quantity is then typically settled against a published price of energy at a major trading hub such as Palo Verde or Mid-C, and a dollar amount is determined and paid to the Transmission Provider, and the reporting entity would determine whether the Transmission Provider is an ACS or not, and in the event that the Transmission Supplier is an ACS the ACS's EF should be used to account for the additional 2% of Real Power Losses, and if the Transmission Provider is not an ACS then the default EF should be used to account for the additional 2% of Real Power Losses.

As can be seen by these examples, there is ample evidence to substantiate and confirm the loss election applied to the transaction, which is preferable to imposition of a single 2% adder to all transactions based on a single metric. Accordingly, M-S-R urges revisions to the proposed amendment to ensure that the regulation does not overstate these losses, and thereby place a greater burden on compliance entities and distort the total GHG inventory numbers. The MRR should not apply a 1.02 emissions factor for out of state specified sources with emissions factors greater than the default emissions factors when losses for transmission usage outside of the

CAISO grid are settled financially. The Board should direct staff to work with stakeholders to develop appropriate language that addresses these concerns for approval in 15-day changes.

Section 95111(a)(12) – Reporting Sales Into the CAISO

In order to verify that freely allocated allowances are used only for purposes authorized under the Cap-and-Trade Regulation, the proposed amendments would require reporting of "sales into the CAISO." As a threshold matter, before applying a reporting requirement to "sales into the CAISO," CARB must define what these transactions are. Consistent with the recommendations of both the Northern California Power Agency and the Southern California Public Power Authority, M-S-R believes that the definition should specifically exclude transactions that are "self scheduling" as defined in section 11.29 of the CAISO tariff, since these transactions are not sales, and therefore, not subject to the restrictions in section 95892(d)(5). Accordingly, M-S-R urges the Board to direct 15-day changes to the proposed amendments that include the following definition for "sales into the CAISO":

> **"Electricity Sold in the CAISO Market means any transaction that is financially settled by the CAISO under the CAISO tariff, where the California Independent System Operator (CAISO) is the contracting counterparty, except for the exclusions specified in Section 11.29 of the CAISO tariff."**

For purposes of determining the applicability of this newly proposed reporting requirement, M-S-R urges CARB to exclude POUs and Electrical Cooperatives that place all of their freely allocated allowances into their limited use holding accounts for consignment to auction. This distinction would place the non-IOU EDUs that do not put freely allocated allowances into their compliance accounts into the same reporting obligation as the IOUs. Furthermore, this could be confirmed and verified each year without the release of confidential or proprietary information, and without adversely impacting the auction markets. The proposed amendment should also be revised to reconcile the use of the terms "Electrical Distribution Utility" and "Electric Power Entity." The definition for "electrical distribution utilities" found in the Cap-and-Trade Regulation should be added to the MRR, and the provisions of proposed § 95111(a)(12) should reflect the difference between the two terms. Accordingly, M-S-R recommends that the following clarification be added to the proposed amendment:

> **"Electrical Distribution Utility Sales into CAISO. Electric power entities that are ~~All electricity~~ electrical distribution utilities, except for (a) IOUs and (b) POUs that consign all their allocated allowances for auction, . . ."**

M-S-R has also observed that there are no provisions in the regulation to calculate non-facility-specific or non-unit-specific emission factors for sources in California. Entities such as M-S-R's members sell electricity from their "system," not from a specific generator or generation facility,[2] similar to the manner in which electricity is often imported into California. However, the default emissions factor for unspecified power in § 95111(b)(1) seems to apply to electricity imports only, and would not appear to apply to in-state resources. Changes are needed to address this issue, although it presents complexities that are not easily explained or clarified in regulatory language. M-S-R has been in discussions with CARB staff regarding this matter, and is encouraged that a solution can be crafted. Accordingly, M-S-R asks that the Board recognize the need for this clarification and direct that 15-day changes be worked out with staff and stakeholders.

Conclusion

M-S-R appreciates the opportunity to provide these comments to the Board, and looks forward to working with staff to ensure that the proposed amendments provide for feasible and workable solutions to the concerns they are intended to address, without unduly burdening compliance entities or complicating the essential reporting function under the state's greenhouse gas program.

Respectfully submitted,

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cc: Mary Jane Coombs
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2 Examples shown on REU e-tags are REDDR1 (Redding), SMUDSYS (SMUD system), TID.System (Turlock Irrigation District), and RSVL (Roseville system).