
MEMORANDUM

to: CALIFORNIA AIR RESOURCES BOARD

from: MODESTO IRRIGATION DISTRICT
REDDING ELECTRIC UTILITY
TURLOCK IRRIGATION DISTRICT

subject: PROPOSED 15-DAY MODIFICATIONS TO THE REGULATION FOR THE MANDATORY REPORTING OF GREENHOUSE GAS EMISSIONS

date: AUGUST 8, 2011

The Utilities.

Modesto Irrigation District ("MID"), Redding Electric Utility ("REU"), and Turlock Irrigation District ("TID"), collectively the "Utilities," respectfully submit these comments on the "Proposed 15-Day Modifications to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions" (MRR) developed by the California Air Resources Board (CARB).

MID, REU, and TID are local publicly owned electric utilities. MID and TID are irrigation districts located in the Central Valley, while REU is a municipal utility within the City of Redding. MID serves over 111,000 electric customers with a peak load of over 620 Megawatts (MW). REU serves 43,000 customers with a peak load of 247 MW. TID serves about 100,000 electric customers with a peak load of approximately 600 MW. The Utilities maintain similar resource mixes, including hydroelectric, eligible renewable resources, and fossil fuel sources.

The Utilities have consistently supported the goals of AB 32 and participated in CARB's mandatory greenhouse gas (GHG) reporting proceedings in an effort to ensure that the reporting regulations were developed in a manner that is consistent with electric utility business practices. The Utilities are on record as supporting the original MRR adopted December 2007, and have been active GHG emissions reporters since the beginning of the program. The Utilities understand the need to coordinate the MRR with reporting regulations adopted by the Environmental Protection Agency (EPA) that occurred following the adoption of CARB's MRR, and also to effectively capture the information necessary to coordinate with the CARB cap-and-trade program. Thus, the Utilities offer the following suggested changes to the MRR:

§95102 (a)(238) “MMBtu”.

The MRR defines the term “MMBtu” in §95102 (a)(238) as “*means million British thermal units*”. The Utilities note that the abbreviation MMBtu is interchanged within the MRR with “mmBtu”, but the latter acronym is incorrect in that the lower case “m” means thousandth.

§95102 (a)(336) “Replacement Electricity”.

“Replacement electricity” means electricity delivered to a first point of delivery in California to replace electricity from ~~variable~~ renewable resources in order to meet hourly load requirements. The electricity generated by the variable renewable energy facility and purchased by the first deliverer is not required to meet direct delivery requirements. ~~The physical location of the variable renewable energy facility busbar and the first point of receipt on the NERC E-tag for the replacement electricity must be located in the same balancing authority area.~~

The Utilities disagree with the proposal to require that replacement electricity be sourced from the same balancing authority area and suggest the above change to resolve any discrepancies between the MRR, the State’s RPS program, the Scoping Plan and the reality of power transmission constraints.

The Utilities note that there is a disconnect between the firming and shaping requirements for RPS eligible resources as defined in the California Energy Commission’s RPS Guidebook and in the MRR. In the RPS Guidebook, firming and shaping agreements state that “... *delivered electricity may originate from a control area that is different from that in which the RPS-certified facility is located.*” The Utilities and many other California retail providers have contracted for out-of-state wind resources using firming and shaping agreements¹ and would be harmed by the inconsistencies between the States’ renewable and GHG policies.

This provision to count the emissions from firmed and shaped contracts will significantly change the nature of the renewable market, likely halting the expansion of wind generation. Due to the nature of firming and shaping agreements and the inherent lack of transmission, this provision would severely restrict California’s electricity providers from the ability to import renewable power from out-of-state. This requirement could exacerbate an already constrained transmission environment between California and the Pacific Northwest. California’s utilities will likely incur significant financial impacts from this provision. For example, REU expects this provision to increase REU’s allowance costs by \$24 million over the life of the program, while MID and TID could each incur an additional expense greater than \$51 million over the life of the

¹ Modesto and Redding have had contractual interests in wind from Washington State since 2006. In 2009, TID purchased the Tuolumne Wind Project, which it owns and operates in Washington State.

program². Utilities will either be forced to re-negotiate their firming contracts, while most likely being held hostage by the party providing them with the firming and shaping service, prematurely canceling their renewable wind generation contracts in order to find another resource, exposing them to early breach of contract penalties and potential violations of the recently passed RPS law, or expending significant capital to build and own a fossil-fueled resource to provide for the replacement electricity.

Further, the Scoping Plan relies on a 33% Renewable Electricity Standard (RES) in order to reach the overall GHG reduction goals in AB 32. Absent the recommended revision to the 15-day language, the 21.0 MMT CO₂e of reductions expected from the renewable energy mandates would no longer be valid. The Utilities again assert that this provision is a conflict of California State policies.

§95111 (b)(1) – Default Emissions Factor.

Although the Utilities have consistently advocated for regional default emission factors and continue to believe this would be a more appropriate approach, we believe CARB's change to the default emissions factor in the MRR is appropriate and support the proposed number if a single factor is to be used. The Utilities believe this revised value more accurately reflects the true default emissions from both within the WCI region and outside the WCI region.

§95111 (c)(3)(C) High GHG-Emitting Facilities or Units.

The Utilities continue to assert that language needs to be inserted into this section to clearly articulate that this information is being submitted to CARB for informational purposes only, and that the reporting entity is not liable for the compliance obligation of these reported emissions if they are not brought into California. This provision, as it is currently proposed in the MRR, could apply to every natural gas fueled generator with a heat rate above 8,000 (Btu). The Utilities believe it is unrealistic to classify these generators as high GHG emitting facilities and that this was not CARB's intent with the provision.

§95103(f) Verification Requirement and Deadlines.

The Utilities understand that an earlier verification deadline is needed in order to coordinate with the cap-and-trade program. Keeping this in mind, the Utilities urge CARB to consider allowing more time for verification to avoid scheduling conflicts given the limited number of certified verifiers.

² Cost impacts based on average allowance price of \$15/ton in 2012 increasing linearly to \$50/ton in 2020.

§95105(d)(5). E-tag Queries.

The Utilities strongly disagree with CARB's proposal to require electric power entities to query e-tags for assessing the quantity of imported electricity. Reporting emissions based on e-tag data is problematic for a number of reasons. E-tag data is highly error prone and cannot be changed after-the-fact, except in rare cases by a Balancing Authority. The Utilities worked tirelessly with CARB staff to develop a method for properly reporting electricity transactions from schedules and contracts; in fact, many of the examples included in the guidance documents were developed by the Utilities.

The Utilities, along with approximately 95% of the nationwide market, uses OATI software to track e-tag data. It is not currently possible to query the OATI tagging database for those entities that do not purchase and use other OATI transmission or trading products. Querying this database on a regular basis would be needed to generate reports in order to determine the quantity of imported electricity. It is the Utilities understanding that OATI will provide a copy of the raw tagging data once a year. The Utilities wouldn't be able to monitor their GHG emissions accurately by performing monthly reports or through internal audits, should CARB decide to require this.

It is unclear how entities will properly report transactions based on e-tag data in some cases. E-tags are designed and used to document a transaction market path and physical path. There is no requirement to associate e-tags with contracts. The source (meaning the generator) may or may not have a contractual relationship with the Purchasing Selling Entity (PSE). One example of an unclear e-tag transaction is a purchase from a marketer who sources electricity from the Bonneville Power Administration (BPA). The entity's transaction and contract is with the marketer, and would not list BPA at all. Only when the e-tag information is finalized would the entity discover the source of the energy is BPA. It is unclear if the data would be reported under §95105(d)(5) from an unspecified source, or BPA. Another example of an unclear e-tag transaction is an unspecified purchase from a marketer that ends up being sourced from a wind project. The purchaser has no contract with the wind project, but that the wind project is the source on the e-tag. With no e-tag to contract association, it is unclear how this would be properly reported.

§95105(d)(10) Internal Audit Program.

The Utilities believe that requiring an internal audit program is overly complex and unnecessary. Smaller utilities may not have additional personnel who are familiar with power transactions to dedicate to such a program. The Utilities question why an additional auditing mechanism is necessary when the MRR already requires a rigorous third party verification program that is sufficiently thorough. If CARB continues to believe that an internal audit is necessary, the Utilities request additional clarification to ensure that the Utilities' internal audit

program is sufficient for verification and to avoid conflicts between different interpretations of the requirement.

§95130(a) Annual Verification.

(1)(A)(A) The emissions data report is for the 2011 data year- and the reporting entity did not submit a full verification report for the 2009 or 2010 data year.

The MRR seeks to require a full verification service for 2011. This does not align with previous verification requirements. The MRR as originally adopted requires a full verification every three years, beginning with report year 2009 (not 2008). Using the existing and not proposed MRR, the next full verification would be due in 2012. The Utilities do not believe that a reporting entity who had a full verification the first year it was required of the three year cycle (data year 2009), should be required to have a full verification in 2011. Most entities, including the Utilities, entered into contracts with verifiers based on these requirements. As the Utilities have stated in previous comments to CARB on this issue, a full verification has significant additional expenses compared with the less intensive verifications required in the remaining years of the compliance period due to the necessary on-site visits. For example, if REU were required to perform an additional full verification for its 2011 data year, REU would be obligated to reopen its existing verification contract and would see an increase in verification costs of up to 20% above REU's currently budgeted costs. Thus, the Utilities offer the above language for consideration.

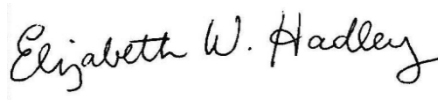
Conclusion

The Utilities appreciate the opportunity to comment on the MRR, and welcome the chance to discuss these concepts further.

Respectfully submitted,



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