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Submitted electronically

April 28, 2017

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

Re: ***Northern California Power Agency*** *Comments on Second 15-Day Changes to the Proposed Amendments to the Cap-and-Trade Program Regulation*

Dear Chair Nichols:

On April 13, 2017, the California Air Resources Board (CARB) issued a second set of modifications to the proposed amendments to the Cap-and-Trade Program Regulation (Second 15-Day Changes) and additional supporting documents. The Northern California Power Agency[1] (NCPA) appreciates the opportunity to provide the Board with these comments on the Second 15-Day Changes.[2]

The proposed modifications set forth in the Second 15-Day Changes demonstrate Staff's responsiveness and understanding of issues raised by stakeholders in previously filed comments regarding the original Proposed Amendments and First 15-day Changes. The revised proposal for allocation of allowances to electrical distribution utilities (EDUs) for the benefit of California's electricity ratepayers helps to ensure that California's electric utilities' increasing role in effecting greenhouse gas (GHG) emissions reductions can be accomplished while minimizing impacts on electricity rates for the State's residents and businesses. The revised allocation proposal in the Second 15-Day Changes, coupled with the State's commitment to continuation of the Cap-and-Trade program, further facilitates meeting the statewide GHG reduction targets in the most efficient and cost-effective manner possible, while providing a further source of revenues for the State and local communities to invest in programs and

1 NCPA is a nonprofit California joint powers agency established in 1968 to construct and operate renewable and low-emitting generating facilities and assist in meeting the wholesale energy needs of its 15 members: the Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, Plumas-Sierra Rural Electric Cooperative, Port of Oakland, San Francisco Bay Area Rapid Transit (BART), and Truckee Donner Public Utility District—collectively serving nearly 700,000 electric consumers in Central and Northern California.

2 The April 13, 2017, Second 15-Day Changes referred to in these comments includes the following: Second Notice of Public Availability of Modified Text and Availability of Additional Documents and/or Information (April 13 Notice); Attachment A – Attachment A: Proposed Second 15-Day Modifications; and Attachment 10 - Post-2020 Electrical Distribution Utilities Allowance Allocation Spreadsheet.

measures to further the State's climate objectives. As more fully addressed herein, NCPA encourages the Board to adopt the proposed amendments to the Cap-and-Trade Program with the further revisions set forth in the Second 15-Day Changes.[3]

The Revised Electrical Distribution Utility Allowance Allocation Proposal Should be Adopted.

The revised EDU allowance allocation proposal set forth in the Second 15-Day Changes provides greater protection to California's residential and commercial electricity ratepayers than the original proposal, and should be adopted by the Board.[4] Notably, the revised EDU allocation proposal recognizes electricity customers' long-term and ongoing investments in emissions reductions through their utilities, as well as the fact that not all renewable resources used for compliance with the State's renewable portfolio program are considered zero-emitting resources under the Cap-and-Trade Program. Likewise, the changes to the electric load estimates and projections reflected in Attachment 10 to the Second 15-Day Changes more accurately reflect current projections based on revised and updated data than the original proposal.

By removing the cap adjustment factor from the EDU allocation calculation, the revised proposal properly recognizes the significant role that EDUs already play in effecting GHG reductions for the State, as well as the impacts that various mandates and associated program compliance costs will have on the State's electricity customers, including the customers served by NCPA's member agencies. EDUs have made significant expenditures in emissions reductions through increasing renewable energy purchases, expanded energy efficiency, and other clean energy investments.[5] Many of the mandates and programs that achieve reductions in GHG emissions have resulted in significant expenditures on the part of the EDUs, which are reflected in current electricity rates. These GHG reductions are also reflected in the current and projected future emissions upon which the allowance allocation is based. Removing the cap adjustment factor for EDUs correctly recognizes the EDUs' proactive and ongoing reduction activities, and avoids imposing a duplicative reduction mandate on the utilities. Doing so also avoids burdening electric ratepayers with paying for emission reductions twice. Since the number of allowances allocated to many EDUs for the post-2020 program period is significantly

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3 NCPA submitted comments on the August 2, 2016, Proposed Amendments to the Cap-and-Trade Program Regulation on September 19, 2016 (https://www.arb.ca.gov/lists/com-attach/89-capandtrade16-BWtdOFAhUWMLUgdk.pdf), as well as comments on the December 21, 2016, First 15-Day Changes (https://www.arb.ca.gov/lists/com-attach/168-capandtrade16-AmxRNFQlBzVRCAhr.pdf). NCPA does not reiterate those comments herein, but urges the Board to direct Staff to continue to work with stakeholders on the important issues raised in those comments not addressed in these further proposed modifications, in subsequent rulemakings if necessary.

4 As previously noted, NCPA fully supports CARB's recommendation to continue to provide EDUs with allowances for the benefit of their electricity customers and use of an allowance allocation methodology that would assign allowances for the entire 2021 to 2030 period, reflecting the timeframe covered by the current GHG Allowance budget.

5 It is worth noting that investments of this type were actively encouraged by CARB. The 2011 Final Statement of Reasons repeatedly notes that the allowance allocations to EDUs "will encourage continued investments in efficiency and clean energy in the future." See, for example, p. 229, 230, 233, 1071.

less than the 2013-2020 allocation, removing the cap adjustment factor also helps decrease the "2021 cliff" and the associated detrimental impacts on electricity customers.[6]

The revised EDU allowance allocation reflected in the Second 15-Day Changes recognizes that all renewable resources that are used for compliance with the RPS mandate are not counted as zero-emission resources under the Cap-and-Trade program. While the program includes a recognition that firmed and shaped resources should not be required to surrender allowances, because the State's RPS and Cap-and-Trade programs are not aligned directly, some RPS-eligible resources are assigned a compliance obligation under the Cap-and-Trade program. Reducing the RPS assumptions originally proposed by 5% properly recognizes this disparity, and will ensure that more RPS-eligible resources are excluded from the EDUs' compliance obligation than would otherwise have occurred under the original proposal. Since this proposal does not address all such resources, however, the Board should direct staff to continue to work with stakeholders to develop guidance documents that clarify application of the RPS adjustment to existing contracts to ensure that the Cap-and-Trade program accurately and fairly accounts for all GHG emissions and zero-emissions resources when assigning Cap-and-Trade program compliance obligations.

Impacts from Electrification of Other Sectors Should be Addressed as Soon as Possible

It is undisputed that the electricity sector plays a pivotal role in meeting the State's clean energy and climate objectives. Despite the successes already achieved by California's electric utilities, even more will be asked from the electric sector as electrification of the transportation, building, and other segments of the economy expands.

CARB first acknowledged the potential for transportation electrification to impact the electricity sector as early as 2010,[7] but now the issue has become even more prominent as the State focuses on 2030. Since then, not only has there been an increased reliance on transportation electrification as a means to meet the statewide reduction effort, but an added emphasis on reducing the use of natural gas in the building sector. All of these portend greater and greater impacts on the electric sector, which should be resolved sooner, rather than later, as the legislature intended.

NCPA agrees that electrification will result in net carbon benefits to all Californians, and should continue to be encouraged. However, the corresponding impacts on the EDUs and their electricity customers must be appropriately recognized. In the original and Second 15-day Changes, staff acknowledged that this issue could be part of a subsequent rulemaking and future program amendments. Most recently, CARB noted that "methods for adjusting EDU allocation based on increased electrification, in particular the transportation sector, may also be considered

6 Due to the differences in the allocation methodology used in 2013 versus the way the allocations are calculated for 2021 to 2030, some EDUs will have a significant decrease in allocated allowances between 2020 and 2021. This difference, coupled with the steeper rate of decline that would result from application of the cap adjustment factor, would result in a "2021 cliff."

7 2011 FSOR, p. 570.

in a future rulemaking."[8] Because the impact of electrification on the electric sector is so significant, CARB should prioritize resolution of this issue. The State legislature has mandated that transportation electrification have a greater role in moving the state towards its 2030 and 2050 emission reduction targets,[9] CARB should address removing barriers to greater electrification and recognize the associated impacts on EDUs. As such, acknowledging electrification impacts on EDUs' Cap-and-Trade program compliance obligations should be part of a comprehensive joint effort between CARB, California Public Utilities Commission (CPUC), and California Energy Commission (CEC), and should commence immediately. *The Board should direct staff to initiate such a rulemaking as soon as the current rulemaking process is concluded, and that direction should be clearly reflected in this current regulatory process*.

Imports from Energy Imbalance Market Transactions are Properly Excluded from the Definition of Resource Shuffling

The Second 15-Day Changes would correct a mistake from the original proposed amendments regarding the treatment of imports in the California Independent System Operator's (CAISO) Energy Imbalance Market as resource shuffling. Section 95852(b)(2)(A)(10). NCPA supports the change that would retain the exception for these transactions from the definition of resource shuffling. However, NCPA also urges the Board to direct that the revisions to the regulation that would adopt the "bridge solution" (described in proposed revisions to section 95852(b)(1)(D)) clearly delineate how long the proposed interim solution will be utilized. In the alternative, the bridge solution should be removed, and the regulations should retain the *status quo* until the ongoing CAISO rulemaking process has been completed and a final accounting metric has been approved.

Allowance Price Containment Reserve

The proposed revisions to section 95913(k)(2)(A) recognize the potential for differences between price projections and actual future values. NCPA supports this further proposed revision and encourages CARB to apply this same rationale to the overall concept of cost containment, and ensure that robust and meaningful cost-containment is part of the program design. It is important to protect compliance entities – as well as their customers – from extreme price spikes or other unanticipated market conditions that would impact compliance costs in the future.

Linkage with Ontario, Canada

Expanding the scope of the Cap-and-Trade program to include additional trading partners provides benefits to compliance entities and more opportunities for cost-effective emissions

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8 April 13 Notice, p. 13.

9 Health & Safety Code § 44258.5(b) The state board shall identify and adopt appropriate policies, rules, or regulations to remove regulatory disincentives preventing retail sellers and local publicly owned electric utilities from facilitating the achievement of greenhouse gas emission reductions in other sectors through increased investments in transportation electrification. Policies to be considered shall include, but are not limited to, an allocation of greenhouse gas emissions allowances to retail sellers and local publicly owned electric utilities, or other regulatory mechanisms, to account for increased greenhouse gas emissions in the electric sector from transportation electrification.

reductions. Such expansion of the program also provides the longer-term and further-reaching benefit of heightened awareness of climate change impacts and broader recognition of the global nature of the problem. NCPA supports expansion of the State's program subject to the careful and rigorous assessment that ensures the necessary protections for California's compliance entities, the integrity of the program, and the meets the objectives of California's climate policies.

Conclusion

Since its adoption, the Cap-and-Trade program has played a crucial role in effecting GHG reductions in California. Since that time, the State has continued to expand the scope of its climate policies and reaffirm its commitment to reducing greenhouse gasses and other pollutants. The State's climate objectives are achieved through myriad policies and measures, and no one program can meets all aspects of the State's energy policies and objectives. However, even within that changing landscape, the Cap-and-Trade program continues to play a vital role, providing an opportunity for compliance entities to achieve GHG emissions reductions in a cost-effective and technologically feasible manner, and providing a vehicle that ensures statewide emissions reductions. It meets the objectives of Health & Safety Code section 38562(b) and ensures that direct emissions reductions. It has the added benefit of providing relative cost-certainty to emissions reductions, and a valuable revenue source for a panoply of worthwhile and necessary programs and investments in low-income and disadvantaged communities across the state and within POU service territories. But even so, the program continues to have significant impacts on California's utilities and their ratepayers, making allocation of allowances to EDUs for the benefit of their electricity customers critically important for EDUs.

Adopting the proposed EDU allowance allocation set forth in the Second 15-Day Changes goes far to provide ratepayers with necessary protections. NCPA urges the Board to adopt the revised EDU allowance allocation proposal, and to direct staff to continue to work with the CPUC, CEC, and affected stakeholders to address the outstanding issues and considerations raised in these comments and in comments previously submitted by NCPA.

NCPA appreciates the work that has staff has done in developing the proposed amendments to the Cap-and-Trade regulation, and their responsiveness to the concerns raised by stakeholders. We thank the Board for the opportunity to provides these comments; please do not hesitate to contact the undersigned or Scott Tomashefsky at 916-781-4291 or scott.tomashefsky@ncpa.com if you have any questions regarding these comments.

Sincerely,

C. Susie Berlin

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