

**Comments of the Western Power Trading Forum
to the California Air Resources Board
on Proposed Amendments to the Cap-and-Trade Regulation**

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The Western Power Trading Forum¹ (WPTF) welcomes the opportunity to provide input to the California Air Resources Board (CARB) on its Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms.

WPTF generally supports adoption of the proposed amendments to the regulation, including the new emission cap trajectories and the new covered sources. However, we have concerns about several elements, which we address in more detail below:

- Timeframe for updating ‘know-your- customer’ information
- Phase out of the Renewable Portfolio Standard (RPS) adjustment
- Placeholder provisions to address carbon capture, storage and utilization
- Consignment of allowances to auction by Public electric distribution utilities

Timeframe for updating ‘know-your- customer’ information

WPTF is concerned that staff proposal to shorten the timeframe for making changes to information submitted pursuant to the ‘know-your-customer’ provisions is too tight. In particular, the requirement for users to update the contact information within 5 days of any changes is unrealistic. We request that staff revert to the original 60 days, as is allowed for other information.

Phases out of the RPS Adjustment

Staff have proposed restricting the RPS adjustment to electricity imports associated with PCC) procurement after 2030. WPTF has supported the RPS adjustment provided that electric utilities are provided with an offsetting allowance allocation, and that a reasonable phase out period is adopted. We are concerned that eliminating the RPS adjustment after 2030 will harm independent power producers with legacy PCC2 contracts that were put in place before the rule change. WPT therefore requests that CARB allow importers who can demonstrate to a verifier that electricity was imported pursuant to a PCC2 contract that was entered into prior to the proposed amendments to use the RPS adjustment for those transactions. If staff do not make this change, then CARB should require electric utilities to provide counterparty importers allowances to cover the compliance obligation for electricity imported pursuant to a legacy PCC2 contract.

¹ WPTF is a diverse organization comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West. WPTF has over 100 members participating in power markets within California and elsewhere across the United States.

Carbon Capture, Removal, Utilization, and Storage (CCUS)

WPTF supports inclusion of new placeholder language CARB pursuant to SB905 to address future provisions to reduce compliance obligations associated with carbon that is captured, removed, stored or utilized. We also support the proposed approach that would essentially treat CCUS as an offset credit subject to a 100 year permanence standard, under protocols and calculation methods to be developed.

We are concerned, however, that the text seems to limit the applicability of any future CCUS protocol to CO₂ suppliers. Given the interest of electricity generators, importers and our emissions sources to use CCUS in the future, we request that Staff broaden the language of section 95852.3 to enable use of future protocols by other emission source categories.

Electric Utility Allocations

WPTF continues to support direct allocation of allowances to utilities for rate-payer benefit, and offers no comment on the proposed changes to the methods for calculating the quantity of allowances provided to each utility. However, we are disappointed that staff have not proposed a requirement that Publicly Owned Utilities (POUs) consign allocated allowances to auction.

In the Initial Statement of Reason for the original cap and trade program rule adopted in 2012, staff explained their rationale for direct allocation to electric utilities². In discussing why Investor Owned Utilities (IOUs) were required to consign directly allocated allowances to auction but POUs were not, the ISOR justifies CARB decision on the grounds that POUs to not compete with independent power producers or compete in the deregulated electricity markets:

“ In the current California electricity market, electricity is produced by both IOUs and independent generators. An IOU will have a compliance obligation for the emissions resulting from generation it operates. An independent electricity generator will have a compliance obligation for the emissions from the generation it operates. Both the IOU and the independent generator will purchase allowances at auction for their emissions. Because the price of electricity in the wholesale electricity market will reflect the cost of those purchased allowances, staff expects that independent generators will incorporate their cap-and-trade compliance costs into their bids in the wholesale power markets. These costs will be paid by the IOUs when the power is purchased.

² <https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2010/capandtrade10/capisor.pdf> at 11-31

By requiring IOUs to put their allowances up for auction, the regulation maintains the current competitiveness of the deregulated California electricity market. In this way, utility-owned generation and independent generation have equal access to allowances.

Most POUs own and operate their own generation and do not compete with independent generators in the way IOUs do. Because of this, allowances directly allocated to POUs may either be consigned for sale at the general quarterly auctions or used directly to meet their compliance obligations. If a POU decides to auction some of its allowances at the general auction, the same auction rules apply to the POUs as those described above for the IOUs.

As staff are no doubt aware, California electricity markets have changed significantly since the cap-and-trade program was first adopted, first with the Western Energy Imbalance Market (WEIM) and now with the CAISO's Extended Day Ahead Market about to go live. The fact that several POUs already participate in the WEIM and intend to participate in EDAM fundamentally refutes CARB's original argument: to the extent that a POU offers its owned or contracted generation in the CAISO markets, this generation will compete with both IPP owned generation and IOU owned generation. Failure to require POUs that participate in the CAISO markets to consign their allocated allowances to auction will undermine both the competitiveness of those CAISO markets and prevent independent generation from having equal access to allowances.

For this reason, WPTF urges CARB to require POUs that offer resources into the CAISO markets to consign their directly allocated allowances to auction.