M E M O R A N D U M

TO: California Energy Commission

FROM: Modesto Irrigation District
Redding Electric Utility
Turlock Irrigation District

SUBJECT: RENEWABLE PORTFOLIO STANDARD REPORTING AND VERIFICATION UNDER SBX1 2

DATE: October 8, 2012

The Utilities

Modesto Irrigation District ("MID"), Redding Electric Utility ("REU"), and Turlock Irrigation District ("TID"), collectively the "Utilities," provide the following comments in connection with the California Energy Commission's ("CEC") Workshop on Renewable Portfolio Standard ("RPS") Procurement Reporting and Verification held on September 21, 2012 (the "Workshop").

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 113,000 electric customers with a peak load of over 600 Megawatts (MW). REU serves 40,000 customers with a peak load of 235 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, and fossil fuel resources.

Each of the Utilities adopted renewable energy goals and engaged in renewable procurement activities prior to the enactment of Senate Bill 2 (2011-2012 First Extraordinary Session, Simitian) (SBx1 2). In 2013, MID is expected to serve 29%, REU is expected to serve 26% and TID is expected to serve 28% of their load with eligible renewable resources registered with WREGIS.

The Utilities appreciate Staff's continued efforts to craft regulations that recognize POU leadership in renewable energy procurement as well as the advantages of local governance, and structure. The open forums and workshops that Staff facilitates help to bring a shared understanding for all stakeholders. To further these discussions, the Utilities provide the following issues to consider in regards to the Workshop:

Summary of Key Points:

- **RECs retired in WREGIS within the required 36 month timeframe should be available for compliance in all current or future compliance periods;**
- **Portfolio Content Category 1 (PCC1) verification should not incent "over scheduling" of variable energy resources;**
- **Electricity products procured prior to June 1, 2010, or portfolio content category 0 (PCC0), that would otherwise meet the requirements of portfolio content category 1 (PCC1) should be eligible for the PCC1 designation;**
- **The RPS should be harmonized with the Cap-&-Trade and GHG Mandatory Reporting Regulations requirements; and**
- **Firm transmission should not be included as a necessary component of RPS Procurement verification.**

REC Retirements

During the Workshop the question was asked, "Does the retirement of a REC constitute compliance?" The CEC staff's response was "yes", and the Utilities would like to ensure that Staff has a shared understanding of the differences between REC retirements and RPS compliance. For example, SBx1 2 states:

> "*A renewable energy credit shall not be* ***eligible*** *for compliance with a renewable portfolio standard procurement requirement unless it is retired in the tracking system…….within 36 months from the initial date of generation of the associated electricity*."[1]

The above statement serves to establish the 36 month criteria for the retirement of a REC, which simply means that the REC cannot be resold or transferred, essentially removing that REC from the "market" within 36 months of its generation. SBx1 2 contemplated the flexibility of compliance by creating multiyear compliance periods and allowing for the banking and carryover of excess RECs. CEC Staff recognized the flexible compliance mechanisms in Section 3206 of the "33 Percent Renewables Portfolio Standard Pre Rulemaking Draft Regulations" posted July 26, 2012. Section 3206 presents the criteria for excess procurement and historic carryover, and both of these provisions provide for instances

[1] SB x1 2 399.21 (a)(6)

where RECs can be applied to compliance with SBx1 2 obligations well beyond the 36 months of the associated generation. Thus, the Utilities seek further confirmation that the CEC intends that RECs that are timely retired may be held by the utility to be banked and carried-over and be applied to future RPS compliance obligations.

PCC1 Verification

At the Workshop, CEC Staff set forth a proposal for verification of PCC1 products on slides 16-24 of their presentation. The Utilities support the use of ETags for verification as, for practical purposes, the compilation of tags is equivalent to scheduled energy transfers between Balancing Authorities. The Utilities also understand the necessity for verification purposes of metered data, records, contracts, and invoices provided any confidential information remain so. Slide 19, however, depicts what the Utilities interpret to be representative of an hourly out-of-state wind import schedule. The Utilities would like to clarify that PCC 1 credit will be given on an ***integrated hourly*** basis, consistent with how energy schedules are implemented in the Western Electricity Coordinating Council (WECC) to ensure that wind generators are not incented to schedule with the purpose of capturing the highest generation during the hour rather than the most accurate schedule. As wind integration is a challenge to integrate given the influx of variable generation being built in the Pacific Northwest, extreme pressure is being put on incremental (wind falloff) and decremental (wind ramp) reserves, and the Utilities fear that the verification requirements as presented by the CEC may have unintended consequences, such as:

- In-hour overscheduling;
- Daily overscheduling;
- Inefficient use of already constrained transmission assets; or
- Stress on wind following reserves.

As such, the Utilities would like to ensure that the CEC verification requirements do not preclude a wind facility from generating beyond the scheduled amount for the hour, and ask that the appropriate clarifications be included in the proposed Regulations.

PCC0 Optionality

The case has been previously made that entities with PCC0 contracts that would otherwise qualify as PCC1 should have the option of classifying those resources as PCC1. Allowing this optionality:

- Recognizes the "count in full" intent of SBx1 2;
- Recognizes the full value of early renewable investments;
- Properly allows early actors to recover stranded costs; and
- Is consistent with the goals of California's AB 32 programs.

The Utilities set forth supporting data for this position in its previous comments to the proposed RPS implementation regulations submitted to the CEC submitted on August 13, 2012, and do not reiterate those full comments here. That said, the Utilities strongly believe that the so-called “grandfathering” provisions were not intended to act as a punitive rule with regard to the Portfolio Content Categories under SBx1 2. Unnecessary costs and administrative burdens can be significantly alleviated by clarifying that eligible PCC0 contracts may, at the utility’s option, be classified as PCC1.

Cap-&-Trade and Mandatory Reporting Harmonization

The Utilities were encouraged by the Air Resources Board’s (ARB) representation at the Workshop, and believe that collaboration among the regulatory agencies in the areas of greenhouse gas (GHG) and RPS regulation need to be continued and expanded. The harmonization of the GHG and RPS regulations must ensure that the goals of all the regulations may be met without compromising the ability of covered entities to comply.

Specifically, the Utilities request that the CEC work with the ARB to ensure that the RPS Adjustment provision in the Cap-&-Trade regulation (§95852 (b)(4)(B)) is consistent with the RPS regulations. Section 95852(b)(4)(B) of the Cap-&-Trade regulation states:

> “*The RECs associated with the electricity claimed for the RPS adjustment must be used to comply with California RPS requirements during the same year in which the RPS adjustment is claimed*.”

The Utilities believe that entities covered under both the RPS and Cap-&-Trade regulations should not have to choose between RPS or GHG compliance. Thus, the Utilities request that the CEC propose the following change to Section 95852(b)(4)(B) of the ARB’s cap-&-trade regulation:

> “*The RECs associated with the electricity claimed for the RPS adjustment must be ~~used to comply with California RPS requirements~~ retired during the same year in which the RPS adjustment is claimed*.”

Failure to make such corrections would not only marginalize RPS investments, but would also hinder the environmental goals established by the State.

Firm Transmission requirement for RPS Contracts

The Utilities request clarification to ensure that renewable energy is allowed to flow over both firm and non-firm transmission, and that firm transmission is not a necessary requirement of the SBx1 2 Portfolio Content Categories. Non-firm transmission products are unique in their ability to serve reliability as well as market functions.

CONCLUSION

The Utilities appreciate the efforts by the CEC to develop new RPS regulations consistent with SBx1 2 in a manner that recognizes the authorities vested in the local governing bodies of the individual POUs and protects California’s economy and ratepayers. The Utilities look forward to continued collaboration in working through these issues.

Respectfully submitted,

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