Committed to Preserving and Expanding Consumer Choice in California's Electricity Marketplace

October 26, 2023

Rajinder Sahota
Deputy Executive Officer
California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: The Alliance for Retail Energy Markets (AReM) Comments on Potential Amendments to the Cap-and-Trade Regulation

Dear Ms. Sahota:

As representatives of Electric Service Providers ("ESPs"), AReM provides the following comments regarding the potential changes to the Cap-and-Trade Regulations administered by the California Air Resources Board ("CARB"). AReM is opposed to any phase-out of the RPS Adjustment. The State's RPS Program is separate from the Cap-and-Trade Program and while the two programs work together to help reduce GHG emissions, the RPS Program specifically allows Product Content Category 2 ("PCC-2") renewable energy credit to count toward a retail seller's RPS obligations. Phasing out the RPS Adjustment adds unnecessary and inappropriate costs to the RPS Program. The sellers of PCC-2 products generate renewable energy and then import power into California consistent with the statutory elements required of the PCC-2 renewable product. But for the PCC-2 requirements, sellers would not import power into California and be subject to first importer costs associated with the Cap-and-Trade Program.

The proposed changes to the RPS Adjustment will have detrimental impacts on existing long-term commercial arrangements that have been established pursuant to the RPS Program rules. Without the RPS Adjustment, sellers of PCC-2 products are subject to the cost of importing system energy which is the unspecified source cost of carbon reflected by the purchase Allowances. This raises the cost of PCC-2 renewables when the only reason the power was imported into California at all was because of the firming and shaping allowed for a PCC-2 product. Moreover, CARB's proposed changes fail to recognize the ongoing policy foundation that supports the RPS Adjustment, namely that renewable energy was produced and delivered into the multi-state grid due to contracts *executed by California retail sellers* and that the renewable production is recognized for RPS Program purposes notwithstanding the transmission limitations precluding importing the energy into California at the time of production. The transmission limitations that necessitated the PCC-2 product cannot be alleviated without extensive capital investments that are unlikely to be undertaken in the near future.

CARB should not phase-out the RPS Adjustment. Because retail sellers have a limitation on the total quantity of PCC-2 deliveries that they can utilize within an RPS compliance period, CARB should not have concerns about an expansion of these types of imports over the long term.

Moreover, CARB's proposed phase-out will have severe negative impacts for California's energy consumers while the State is pushing hard for expansion of electricity usage as a central part of the decarbonization goals. The proposed change could lead to loss of firming and shaping products that are critical to the balancing of intermittent resources and the rigors of resource scheduling for importation into California. The proposed phase-out would, at minimum, increase costs to consumers and at worst cause the stranding of renewable resources that are otherwise committed to California retail sellers, with associated problems with RPS compliance, particularly if long-term contracts are lost. These negative and costly consequences can be avoided by continuing the RPS Adjustment.

AReM understands there are challenges associated with verification of PCC-2 imports. However, under existing CPUC and California Energy Commission rules for the RPS Program, there should be a means to help determine the validity of RPS Adjustment claims for transactions supporting RPS compliance without resorting to drastic changes to the RPS Adjustment that could undermine the sanctity of contracts, create increased costs to consumers, and risk stranding certain renewable resources. AReM is committed to working with CARB staff to address these concerns. However, challenges for RPS Adjustment verification should not be a basis for negating the value of PCC-2 products, particularly the long-term commitments that may be already in place.

Respectfully submitted,

Andrew B. Brown
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Attorneys for the Alliance for Retail Energy Markets