Modesto Irrigation District
Water and Power

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October 26, 2023

Rajinder Sahota
Deputy Executive Officer for Climate Change and Research
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: Modesto Irrigation District's Comments on Proposed Changes to the RPS Adjustment

Dear Rajinder:

The Modesto Irrigation District (MID) welcomes the opportunity to provide input on a topic of great importance to the ratepayers living and working within our Central Valley electric service area. During the California Public Workshop: Potential Amendments to the Cap-and-Trade Regulation held on October 5, 2023 (the "Workshop"), California Air Resources Board (CARB) staff introduced a concept to phase out the Renewable Portfolio Standard (RPS) Adjustment. MID strongly opposes any reduction or elimination of the RPS Adjustment; the cost of such an action for the benefit of what amounts to an emissions accounting improvement would be too high and borne largely by electric ratepayers in disadvantaged communities.

An original feature of the Cap-and-Trade program, the RPS Adjustment was designed to recognize significant early investment by EDUs in renewable energy resources to meet the requirements of the nascent RPS program. As an early actor towards California's renewable energy resource procurement goals – prior to development of the Cap-and-Trade program – MID entered several long-term contracts for firmed-and-shaped output of wind energy from resources located in Oregon and Washington. The firmed-and-shaped nature of energy delivered pursuant to these RPS-eligible contracts provides a critical benefit to grid reliability and for further penetration of renewables into the electric system by making predictable and reliable the otherwise intermittent production profile of wind energy.

The RPS Adjustment ensures that the value of EDUs' significant investments in RPS-eligible out-of-state renewable energy – and their furtherance of California's policy goals of greenhouse gas emissions reduction and renewable energy proliferation – is maintained. Reducing or discontinuing the RPS Adjustment would result in a new compliance obligation for energy recognized as renewable under the RPS program the cost of which was not contemplated in the analysis and decision-making processes for these resources. This new compliance obligation would place duplicative compliance cost burdens on MID's and other EDUs' ratepayers: for the premium paid for the long-term renewable energy contracts, and again for Cap-and-Trade compliance instruments that would be required to cover the RPS-eligible energy imports. These unplanned costs would necessitate electric service rate increases during a market climate that has seen energy and other prices increase dramatically and would be compounded by the uncertain market impact of CARB's plan to remove a significant amount of compliance instruments from the program.

In the Workshop, CARB staff's analysis and arguments regarding the RPS Adjustment addressed only RPS Portfolio Content Category 2 (PCC2) firmed-and-shaped resources stating that, "the role of Portfolio Content Category 2 in the RPS has declined over time" given limitations placed on the proportion of PCC2 resources that can be used for RPS compliance and implying that the cost impact of a lesser or eliminated RPS Adjustment would be commensurately smaller than it would have been in the past. These arguments fail to recognize the critical role of Portfolio Content Category 0 (PCC0) resources for the load-serving and RPS compliance needs of certain EDUs. Many EDUs, especially publicly-owned utilities (POUs) like MID, have grandfathered contracts – designated PCC0 in the RPS program – that existed prior to Cap-and-Trade and that can exceed the limits placed on PCC2 resources. MID's PCC0 contracts have terms extending past 2030. If the RPS adjustment were eliminated MID's ratepayers would have to pay tens of millions of dollars in new Cap-and-Trade compliance costs.

MID's service area is mostly comprised of areas designated as disadvantaged communities. The rate increases triggered by removing or otherwise devaluing the RPS Adjustment would have an outsized effect on low-income electricity customers. Furthermore, electrification of gasoline-powered vehicles and natural gas fueled household and industrial equipment will have a massive impact on emissions reductions but will be slowed as consumers weigh increased electric rates in their decision to adopt new, cleaner technologies. Due to the lower average income in our service area MID's electric vehicle adoption rate lags the rest of the state and would be further hampered by increased electric rates. MID believes that the RPS Adjustment is sound policy and is in alignment with the State's climate policy because it fulfills longstanding cost containment objectives for California's electric ratepayers – particularly those of low-income – and recognizes the fact that our investments in these resources have displaced emitting resources with zero-emission wind power as is the goal of the RPS program. Also, lower electricity rates not only support an affordable lifestyle for those in our community but will also factor into their decisions to convert to electric-powered devices that will result in net greenhouse gas reductions.

In response to CARB staff's list of ongoing challenges related to reporting and verification of RPS Adjustment claims, MID believes these are minor in relation to the cost impact we would experience were the RPS Adjustment to be discontinued. As proposed in various comments submitted by MID and other EDUs during the prior Cap-and-Trade rulemaking in 2016 and 2017 we continue to believe that the Renewable Energy Credit (REC), which is already required for specified zero-emission and RPS Adjustment claims, is the perfect tool for validating these types of imports. MID welcomes the opportunity to share our thoughts and collaborate with CARB on improvements to the RPS Adjustment program that would alleviate CARB's reporting concerns while avoiding an unnecessary cost burden on our customers.

The importance of the RPS Adjustment to MID and the arguments supporting its continued inclusion as part of the Cap-and-Trade program have not changed since the inception of the program or since MID and others defended the RPS Adjustment during the 2017 Cap-and-Trade rulemaking process during which CARB also contemplated its discontinuation. MID strongly requests that CARB consider the significant cost impacts that would be caused by removal or reduction of the RPS Adjustment and to not pursue any course of action that diminishes the value of this program feature. MID urges CARB staff to work with EDU stakeholders to develop improvements to the program to address reporting concerns. Thank you for your consideration of our comments on this important issue.

Sincerely,

Brock Costalupes

Brock Costalupes
Interim Resource Planning & Development Manager
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