VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Agenda Item 7

TO: Valley Clean Energy Community Advisory Committee

FROM: Mitch Sears, Interim General Manager
Gary Lawson, Sacramento Municipal Utility District (SMUD)

SUBJECT: Resumption of 2019 PCC-2 Renewable Procurements

DATE: December 3, 2018

RECOMMENDATION

Recommend that the VCE Board of Directors approve a resolution authorizing staff to resume the procurement of PCC-2 Renewable Power for VCE's projected 2019 needs.

BACKGROUND

On May 30, 2018 the Community Advisory Committee recommended approval of staff's recommendation to suspend PCC-2 power procurements until the California Energy Commission (CEC) adopts new rules related to revisions in the Power Source Disclosure/Power Content Label (PSD/PCL) requirements for California Load Serving Entities (LSEs). These new rules result from changes to the PSD/PCL law affected by AB 1110 passed in 2016. The changes are to apply starting with 2019 power deliveries. (The resulting reporting would be published in 2020 on the specified reporting schedule for 2019 deliveries.) AB 1110 changes include the addition of greenhouse gas emissions intensity reporting in the mandatory Power Content Labeling.

On June 6, 2018, the VCE Board adopted a resolution supporting the CAC and staff's recommendation to suspend PCC-2 power procurements until the Energy Commission took action.

At the time of the Board's June action, CEC staff had developed a draft proposal that that would not be favorable with regard to the greenhouse gas reporting associated with PCC-2 renewable power imports. As the Committee will recall, PCC-2 renewable power is imported from outside California from a seller supplying renewable energy certificates (RECs), from a renewable resource which are provided along with a power import into California from a different, non-renewable resource. Currently, the ownership of PCC-2 RECs is evidence that the purchaser has bought the renewable carbon free attributes of the supplying renewable energy resource. For example, the RECs might be matched with an import of power from a natural gas-fired power plant. The PCC-2 REC offsets any carbon emissions associated with the underlying imported energy. The draft CEC staff proposal would require the LSE to declare the carbon emissions associated with the underlying energy and would not allow the PCC-2 REC to offset the carbon emissions for greenhouse gas reporting purposes.

On October 9, 2018, CEC staff issued *AB 1110 Implementation Proposal for Power Source Disclosure, Third Version* which maintains their previous proposal with regard to needing to declare the GHG emissions intensity associated with the power import underlying the PCC-2 RECs.

At this point, development of the amendments to the PSD/PCL regulations is in the pre-rulemaking phase. CEC staff plan to conduct another pre-rulemaking workshop later this year to present draft regulatory language based on the AB 1110 Implementation Proposal for Power Source Disclosure, Third Version. VCE staff had anticipated that the CEC would have issued the rulemaking on the AB1110 changes by now. As it stands, the rulemaking won't be issued until sometime in 2019.

VCE still needs to procure the additional PCC-2 renewable power necessary to supply its targeted 42% renewable power content for 2019.

Note: procurement of PCC-2 resources is consistent with Board approved procurement strategy for the early years of VCE while longer-term PCC-1 renewable contracts are secured by VCE.

ADDITIONAL CONSIDERATIONS

While the changes in law require all LSEs to begin reporting greenhouse gas emissions intensity in 2020 for power deliveries during the 2019 calendar year, that legislation also allows a newly formed CCA to avoid reporting carbon emissions for 24 months up to 36 months after launch, meaning that VCEA would not have to report carbon emissions for 2019, and possibly not for 2020:

> "Any new community choice aggregator formed after January 1, 2016, shall not be required to report data on greenhouse gas emissions intensity associated with retail sales until at least 24 months, but shall be required to report that data no later than 36 months, after serving its first retail customer" (PUC § 398.4 (k)2.F(ii).

Therefore, VCEA will have a choice on whether it reports greenhouse gas emissions in 2020 for 2019 power deliveries, and possibly in 2021 for 2020 power deliveries.

ANALYSIS

Table 1 in Attachment 1 shows the estimated carbon emissions for VCEA's 2019 power portfolio under the current assumptions that PCC-2 RECs would offset the carbon emissions associated with the matched imported power. The estimated carbon emissions intensity is 281 lb/MWh.

In the event that the CEC were to adopt CEC staff's position, the consequence to VCEA would be that without any action, VCEA's reported carbon emissions increase significantly. Table 2 in

the Attachment 1 shows that VCEA's estimated carbon emissions intensity could go to 421 lb/MWh based upon the reporting change and assuming VCEA took no other action to try and reduce reported carbon emissions. In the event that VCEA wanted to reduce its carbon emissions intensity to compensate for the GHG emissions intensity increase, VCEA would incur increased costs to procure additional no/low carbon energy to offset the increase in carbon emissions that would be attributed to PCC-2 renewable power. Under today's power costs, VCE could pay up to $800,000 for the additional no/low carbon energy needed in 2019.

Note: As a reminder, VCE is utilizing PCC-2 resources as a temporary bridge to fill renewable energy needs and policy goals until longer-term renewable contracts are in place. VCE's solicitation process for these longer-term renewable contracts is currently underway. These resources are considered PPC-1, currently cheaper than PCC-2 resources, and are anticipated to begin coming on-line in late 2020/early 2021. Therefore, any PCC-2 contracts will be short-term and phased out as soon as possible.

CONCLUSION

Because the CEC has not yet acted and will not be enacting the PSD/PCL rule changes until sometime in 2019, and because it will be important for VCE to have locked in its PCC-2 procurement prior to January 1, 2019, staff proposes that the Board provide direction to resume 2019 PCC-2 procurement.

Staff requests CAC support for the staff recommendation to resume 2019 PCC-2 procurement.

Attachment

1. VCE Carbon Intensity Calculations - 2019

Attachment 1

Table 1. VCEA 2019 Carbon Intensity Calculation Comparisons
No PCC-2 CO2 Emissions

	Content		Retail Load, MWhs		CO2 Emissions Intensity Per Product		CO2 Emissions Per Product		CO2 Emissions Instensity/ Contribution to Total	
Renewable	42%		299,543		0 lb/MWh		0 MT		0 lb/MWh	
PCC-1[1]		23.25%		165,818		0 lb/MWh		0 MT		0 lb/MWh
PCC-2[2]		18.75%		133,724		0 lb/MWh		0 MT		0 lb/MWh
Large Hydro[3]	33%		235,355		0 lb/MWh		0 MT		0 lb/MWh	
Unspecified Market Power[4]	25%		178,299		962 lb/MWh		77,838 MT		241 lb/MWh	
Total	100%		713,197				77,838 MT		**241 lb/MWh**	

Assumptions:

1 Assumes PCC-1 renewable power has no associated net carbon emissions.

2 Assumes PCC-2 renewable power has no associated net carbon emissions.

3 Assumes Large Hydro has no associated net carbon emissions.

4 California Air Resource Board's calculation for emissions from Unspecified Sources of Power has an emission factor of 0.428 MT CO2/MWh, in addition to a transmission loss adjustment of 1.02. Converted to lbs/MWh, that equates to 962 lb/MWh. Source: Regulation for the Mandatory Reporting of Greenhouse Gas Emissions, Title 17, California Code of Regulations.

Table 2. VCEA 2019 Carbon Intensity Calculation Comparisons - PCC-2 CO2 Emissions Based On Unspecified Imports										
	Content		Retail Load, MWhs		CO2 Emissions Intensity Per Product		CO2 Emissions Per Product		CO2 Emissions Instensity/ Contribution to Total	
Renewable	42%		299,543		430 lb/MWh		58,379 MT		180 lb/MWh	
PCC-1[1]		23.25%		165,818		0 lb/MWh		0 MT		0 lb/MWh
PCC-2[2]		18.75%		133,724		962 lb/MWh		58,379 MT		180 lb/MWh
Large Hydro[3]	52%		370,862		0 lb/MWh		0 MT		0 lb/MWh	
Unspecified Market Power[4]	6%		42,792		962 lb/MWh		18,681 MT		58 lb/MWh	
Total	100%		713,197				77,060 MT		**238 lb/MWh**	

Assumptions:

1 Assumes PCC-1 renewable power has no associated net carbon emissions.

2 Assumes PCC-2 renewable power has net carbon emissions associated with unspecified imports (See note 4).

3 Assumes Large Hydro has no associated net carbon emissions.

4 California Air Resource Board's calculation for emissions from Unspecified Sources of Power has an emission factor of 0.428 MT CO2/MWh, in addition to a transmission loss adjustment of 1.02. Converted to lbs/MWh, that equates to 962 lb/MWh. Source: Regulation for the Mandatory Reporting of Greenhouse Gas Emissions, Title 17, California Code of Regulations.