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(209) 883.8300 • www.tid.org
333 East Canal Drive • P O Box 949 • Turlock, CA 95381-0949

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Ms. Rajinder Sahota
Deputy Executive Officer
Climate Change & Research
California Air Resources Board
1001 I Street
Sacramento, California 95812

RE: TID Information Comments On Allowance Allocation, RPS Adjustment, And POU Consignment

I. Introduction

Turlock Irrigation District ("TID" or "District") appreciates the opportunity to provide comments to the California Air Resource Board ("CARB") regarding the roles the Renewable Portfolio Standard ("RPS") Adjustment, Publicly Owned Utility ("POU") consignment, and the current allowance allocation from the Cap and Trade Program play for TID's customers in seeking to achieve decarbonization. TID offers these comments to illustrate how vital the historic allowance allocation and RPS Adjustment has been for the District in our efforts to procure renewables and keep rates affordable.

II. TID's Allowance Allocation

To meet TID's obligation to cover emissions under Cap and Trade, TID has historically optimized the use of allowance value between compliance retirements and investments in renewable energy. This flexibility has served our customers well and has resulted in minimal rate impacts due to Cap and Trade. As an example, TID has utilized allowance funds to pay for energy from a 54 megawatt solar PV site, and had plans for further renewable investment, supported by allowance value. These investments, supported through the present structure and allocations in California's Cap and Trade Program, minimize the impact of the program on ratepayers and by keeping rates lower, increases the incentive to electrify end uses of energy. For reference, TID's historic allocation value has averaged nearly $13 million dollars since 2013. If CARB were to modify the Cap and Trade Program to reduce electric utility allocated allowances, that reduction will have a direct impact on ratepayers, and has the potential to increase rates and decrease the incentive to electrify.

Of the 14 communities in TID's service territory 11 have been classified as being a Disadvantaged Community according to CalEnviroscreen. TID also serves a large population of lower middle earning individuals and families that are economically ranked as earning just above the Disadvantaged Community designation. The use of the current allocation allowance value has enabled the District to minimize electricity rate increases which disproportionately benefits customers in the bottom half of earnings spectrum. Keeping current allocations is important in preventing adverse rate impacts on our customers.

In addition to the challenge of serving our community with reliable and affordable electricity, TID, as an electric utility, is faced with the challenge and burden of considerable uncertainty regarding greenhouse gas ("GHG") abatement opportunities, and the impact potential GHG abatement may have on utility costs. For example, the timing and commercial feasibility of Carbon Capture and Sequestration ("CCS"), direct air capture, and renewable hydrogen technologies are potentially significant near- to mid-term costs utilities will incur in order to reach the GHG reduction goals mandated by CARB. The continuation of the current allowance allocation aids in meeting these mandates and further supports Decarbonization efforts by keeping electric rates lower for those looking to electrify other end uses of energy.

III. RPS Adjustment

In previous comment letters TID has expressed to CARB that the historical purpose of the RPS Adjustment was to acknowledge early adopters of clean, low GHG generation sources and serve as a "bridge" to help utilities stabilize costs as the utility seeks to integrate new resources into its renewable generation portfolio for serving load. TID opted to procure renewable resources prior to state mandated directives for utilities to do so through policies such as the California Energy Commission's ("CEC") RPS regulations. This early action by TID resulted in a higher cost resource compared to waiting on procurement, but also reduced emissions earlier as a consequence.

RPS Adjustment has been, and continues to be, important in managing ratepayer cost for this early action. TID recognizes the need and desire for changes in the Cap and Trade regulation to stay aligned with state environmental goals, but removing the recognition of early action by removal of RPS Adjustment sets a precedent for retroactive regulatory changes that can slow investmet in emissions reduction technology in the presence of regulatory uncertainty. Early action and investment in renewable energy supports emissions reduction goals, and already carries a financial impact on ratepayers. Removal or reduction in the value of the RPS Adjustment would negatively impact TID ratepayers along with ratepayers from other utilities that rely on RPS Adjustment.

TID calculates, based on historical RPS Adjustment quantities and projected Carbon Allowance Prices, that removal of the RPS Adjustment from 2025 through 2030 would be equivalent to raising our retail rates 2.5% through that period. We are not saying this is what would happen, but to give a scale of impact the removal of RPS Adjustment would have.

It is critical for TID, that early action continues to be recognized through the RPS Adjustment. TID would also support the move toward an updated RPS Adjustment that applies to PCC0 resources only, in conjunction to the update to the effective RPS utilizing PCC2 renewable generation when calculating Electric Utility Allowance Allocations.

IV. POU Consignment

Mandatory POU Consignement of Allowances has a number of high level consequences:

1. Reduced flexibility in meeting compliance with the Cap and Trade program
2. Increased cost in meeting compliance with the Cap and Trade program
3. Increase in cost recovery needed equal to the increase in cost (higher rates)
4. No further incentive in GHG reduction, with potential negative impacts on GHG reduction from increased rates.
5. Disconnect between timing of costs paid by customers and receipt of any funds through programs, depending on design (potential negative ratepayer impact)
6. Potential increase in regulatory compliance and program design/administration costs

Forced consignment is counter to the goals of decarbonizing the electric sector. Forced consignment removes an option that exists for POU's, meaning the only potential cost impact is either no impact, or an increase in cost. TID would be forced to purchase allowances at the auctions and would need to secure a required line of credit which could reach hundreds of millions of dollars annually would carry an additional cost.

TID also see two potential issues, with respect to forced consignment, that are at odds with each other: electric rates should be as low as possible to increase the incentive to electrify other energy uses, and rates should reflect the cost of emissions and be higher to induce lower electricity usage. Appropriate rate design (not through blanket increases in rates due to forced consignment, but in some way tying time of use rates to market prices which have the cost of carbon imbedded, and emissions reductions in electric dispatch are already optimized by these marginal prices) would be the best way to achieve both of the above goals, and forced consignment would not change the incentive for optimal rate design, but would otherwise increase cost and decrease marginal electrification, which is at odds with the goals of Cap and Trade.

Opportunities to invest consigned allowance value are not a 1 for 1 in liquidity or price to that of marginal dispatch in the electric power markets. If opportunities exist to use consigned allowance value to reduce emissions at or below the current market price of carbon, those investments will be made and will create value for POU ratepayers. If those opportunities don't exist then the best option for POU ratepayers would be to use the electric utility allocations for compliance, as that is the lowest cost option available.

Having the option to choose to consign or not, is a critical component for cost containment within Cap and Trade. This optionality has largely prevented negative impact on TID ratepayers from Cap and Trade compliance to date. TID strongly urges CARB to retain the option for POUs to not consign their allocated allowances in support of least cost Decarbonization.

V. Conclusion

A reduction in quantity of allocated allowances, removal of RPS Adjustment for PCC0 resources, and forced allowance consignement will result in rate increases for our customers. Further, and in particular, TID believes that forced consignment will not have a clear Decarbonization signal to customers, and will result in rate increases. Rate increases could reduce the incentive to electrify, counter to the electrification goals laid out in the Scoping Plan by CARB. TID invites CARB to ask any follow up questions on the information conveyed in these comments. The District's commitment to California's clean energy future is the underlying argument behind our advocacy against changes to the Cap and Trade Program that would strip a POU of desperately needed funds to meet California's climate goals.

TID appreciates the opportunity to comment.

Colin Selby
Resource Planning Department Manager

Austin Avery
Energy Regulatory Analyst