

June 20, 2024

Submitted Electronically

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

Re: City of Redding Comments on May 31 Cap-and-Trade Workshop

Dear Ms. Sahota:

The purpose of these comments is to provide the California Air Resources Board (CARB) with information and feedback on the specific questions raised during the May 31, 2024, Cap-and-Trade Program Workshop. Specifically, the City of Redding's Electric Department (REU) appreciates the opportunity to provide these comments on behalf of the electricity customers of REU, which focuses on the importance of allocating Cap-and-Trade Program allowances for the benefit of electricity customers.

Background

Established in 1887 and with over 61 square miles within its boundaries, Redding is one of California's largest cities north of Sacramento and is home to approximately 93,600 residents. As the county seat of Shasta County, Redding serves an estimated 179,223 residents from surrounding communities. REU is the city's electric utility that is owned by the community and serves approximately 44,000 customers. Redding is a full-service city having its own Electric, Water, Fire, Police, and Housing departments (among others) as well as its own municipal airport and bus system.

As identified through the U.S. Council on [Environmental Quality Climate and Economic Justice Screening Tool \(CEJST\)](#), there are 12 Disadvantaged Communities (DACs) census tracts within Redding's service area, representing 38% of REU's service area. The entire area in Redding boundaries is designated a Low-Income California Priority Population Area as defined by AB 1550.

Program Participation

The City of Redding's Electric Department (REU) is a covered entity under the Cap-and-Trade Program and has been participating since the program began in 2012. After joining the Program, REU divested from a carbon-intensive coal project and used the Cap-and-Trade funding to implement local energy programs that have contributed real results toward helping California reach its climate goals while improving the quality of life for Redding citizens and lowering customers' energy costs.

REU's customer programs have focused on energy efficiency and electrification to lower greenhouse gas emissions and reduce utility costs for ratepayers. Cap-and-trade revenue has directly benefited customers through rebates for electric vehicles, charging infrastructure, and energy efficiency upgrades.

Low-income customers received no-cost energy efficiency improvements to lower their energy usage and utility bills. The program also funded the City's fleet electrification and infrastructure projects, including the addition of four public DC Fast Charging stations that are owned and operated by the City, whereby REU is able to leverage its Cap-and-Trade funds to provide affordable charging for the community.

Overall, Cap-and-Trade funds have not only contributed to lowering GHG emissions but also provided substantial benefits to the Redding community and REU customers by addressing their unique needs while promoting sustainability and reducing energy costs. Given Redding's low-income designation and the fact that 38% of our customers reside in disadvantaged census tracts, maintaining these allowances is crucial. These funds have enabled us to deliver meaningful and lasting benefits, such as reduced carbon emissions, lower energy bills, increased energy efficiency, investments in renewables, and improved air quality, thereby enhancing the well-being of our entire community, including the low-income population.

Allowance Allocation

REU relies on the allowance allocation to meet Cap-and-Trade Program compliance and manage its power supply costs. Any reduction in these allocations would directly increase the cost of electricity, a burden that would ultimately fall on ratepayers. While the Integrated Resource Plan includes additional carbon-free resources, that planning was completed based on the current 2021-2030 allowance allocation. REU has identified carbon-free energy projects and intends to add carbon-free resources to its portfolio; however, the projects identified are not expected to become operational until the 2028 to 2029 timeframe.

Consequently, reducing allowances before these new resources are operational would not reduce carbon emissions but would instead lead to higher costs for the utility and, in turn, higher rates for all of REU's customers. Of those customers, the most vulnerable communities would be disproportionately impacted. This underscores the importance of maintaining adequate allowance allocations through 2030 to avoid unnecessary financial strain on our customers, ensuring a smoother and more economically feasible transition to a cleaner energy portfolio.

POU Use of Allowances

Maintaining flexibility in the use of allowances and allowance auction revenues is crucial, as it enables REU to effectively navigate the complexities of environmental compliance while also addressing local priorities. Recognizing the significant strain on its vulnerable populations, REU used Cap-and-Trade funds to provide direct payments to customers during COVID-19, offering critical financial relief. With the current regulation, POUs can utilize allowances directly to offset emissions, ensuring we can meet regulatory requirements without incurring additional costs. This direct use of allowances is particularly valuable during periods of high emissions or unforeseen operational challenges, helping to maintain compliance without immediate financial strain. Additionally, the ability to trade unused allowances provides additional revenue, which can be reinvested into the utility's operations or community-focused initiatives.

Allowance auction revenues offer another layer of flexibility for POUs. Due to early investments in renewables and divestments in carbon-emitting resources, REU had the ability to monetize a portion of its allowances and invest those revenues in various customer programs. Funds were directed toward infrastructure improvements to increase energy efficiency, community programs that assisted low-income households with lowering energy bills by installing energy efficiency measures, and incentives for the adoption of energy-efficient measures. This strategic use of auction revenues not only helps in achieving environmental goals but also supports economic and social well-being within the community, creating a more resilient and equitable energy system for Redding.

Potential Effect on Rates

REU has analyzed CARB’s Proposed Scenarios provided in the SRIA document, along with additional alternative scenarios, to assess the impacts of the proposed adjustments to the EDU allowance allocation. The table below shows how these proposals would affect REU’s retail rates. In general, an annual increase of \$1.5 million would result in a 1% rate increase:

Potential Rate Increase Resulting from Scenarios Under Consideration

Scenario	Alternative	IEPR Year	RPS Target	Potential Cost Increase, 2025-2030	Potential Rate Increase
Scenario 1	Status Quo/Baseline	2015	45% in 2023	\$0	0.0%
Scenario 2	Staff Initial Scenario	2022	60% in 2030	\$22,044,388	2.4%
Scenario 3	Alternative 1	2015	55% in 2030	\$8,526,748	0.9%
Scenario 4	Alternative 2a	2019	45% in 2023	\$9,955,145	1.1%
Scenario 5	Alternative 2b	2019	55% in 2030	\$16,728,542	1.8%
Scenario 6	Alternative 3a	2022	45% in 2023	\$10,923,457	1.2%
Scenario 7	Alternative 3b	2022	55% in 2030	\$17,638,732	1.9%

With all of Redding being a designated low-income area, maintaining affordable rates has been and continues to play a critical role in utility decision-making. In a recent survey, our customers cited clean energy and affordability as their top energy-related concerns. Therefore, REU strives to keep the energy burden below 2.5% of the median family income and works diligently to minimize rate increases despite rising volatility and uncertainty in energy markets. Current rate increases are planned at an average of 5% per year for the next five years without considering any changes to the Cap and Trade Allowances.

Affordability

Due to the saturation of vulnerable communities in Redding, affordability is at the forefront of every utility decision, with a mounting focus on equity and environmental justice. Redding is experiencing significantly increased costs related to vital infrastructure improvements, wildfire safety, and housing, among other needs. There is a deep concern about how the cumulative effect of increased cost pressures could disproportionately affect the utility's low-income and disadvantaged customers.

REU offers customer programs that aim to ensure an equitable transition to electrification. To achieve this, we are partnering with non-profit organizations to provide direct-install programs that deliver electrification measures to low-income customers. However, increasing electric rates while encouraging low-income customers to electrify would undermine the utility's goal of maintaining a low energy burden for its most vulnerable customers. The harmful effects of such a transition are multifaceted.

Increased Financial Strain

For low-income families, even small increases in utility rates can lead to significant financial strain. Many of these households already allocate a substantial portion of their income to basic needs, and higher utility bills could push them further into financial hardship. This could result in difficult choices between paying for energy and other essentials like food, shelter, healthcare, and education.

Reduced Participation in Electrification Programs

Higher electricity rates can discourage participation in electrification programs. If customers perceive that their utility bills will increase as a result of adopting electric appliances and vehicles, they may be less likely to participate in these programs. This reluctance can stall progress toward broader environmental and sustainability goals, as these communities rely on less efficient, higher-emission energy sources.

Undermining Trust and Engagement

Customers who experience rate increases after making investments in electrification are more likely to feel disillusioned and mistrustful of utility programs. This undermines the utility's credibility and can lead to decreased engagement and cooperation in future initiatives. Trust is crucial for the success of long-term sustainability programs, and losing it can have lasting negative impacts.

Inequitable Energy Burden

The energy burden is the percentage of household income spent on energy bills. For low-income families, this burden is already disproportionately high. Increasing electric rates exacerbates this disparity, making it even harder for these households to manage their energy expenses. This runs counter to the principles of equity and environmental justice that the utility seeks to uphold.

Environmental Impact

Encouraging electrification is a key strategy for reducing greenhouse gas emissions. However, if rate increases deter customers from transitioning to electric solutions, the environmental benefits of these programs will be diminished. This could slow the overall progress toward meeting state climate goals and reduce the effectiveness of the Cap-and-Trade program.

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Conclusion

REU urges CARB to consider the proposal of the Joint Utility Group in order to encourage stable utility rates, support electrification initiatives within the Redding community, and protect customers from additional cost burdens. Through prudent planning, REU has successfully provided stable, affordable, and predictable customer rates. Any changes to the allowance allocation will limit our ability to shield our low income and disadvantaged customers from rate increases, particularly during this period of high inflation and financial strain. Maintaining the current allocation is essential for protecting our most vulnerable customers and continuing the progress toward a more sustainable and equitable energy future.

REU looks forward to collaborating with CARB and other stakeholders in the development of a cost-effective and technologically feasible Cap-and-Trade Program design.

Respectfully submitted,



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City of Redding's Electric Department

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