CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION

6/21/2024

Ms. Liane M. Randolph
Chair
California Air Resources Board
1001 "I" Street
Post Office Box 2815
Sacramento, California 95812

Dear Ms. Randolph,

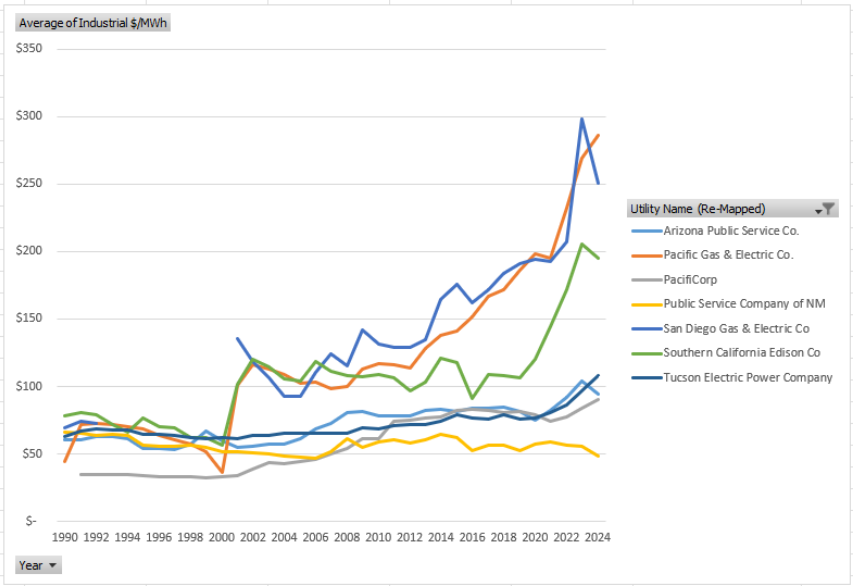
California Large Energy Consumers Association (CLECA) appreciates the opportunity to provide comments regarding potential amendments to the Cap-and-Trade Regulation, specifically in response to the May 31st, 2024, California Air Resources Board (CARB) workshop topic: *Emission-Intensive Trade-Exposed (EITE) Electricity Allocation on slide 38 and related topic discussion from the July 27th, 2023, CARB Workshop slides 48-50.*

CLECA members represent a broad array of EITE designated industries. CLECA member companies produce goods essential for daily life, including critical infrastructure, oxygen for hospitals, and food distribution. CLECA members represent the steel, cement, industrial and medical gas, beverage, minerals processing, cold storage, and pipeline transportation industries. Their aggregate electric demand is about 500 Megawatts, which is equivalent to the electricity consumption of approximately 470,000 average California households. CLECA members are large, high load factor and high voltage industrial electric customers in California for whom the price of electricity is essential to their competitiveness.

The conservation of a robust EITE program to minimize emissions leakage for both direct and indirect emissions is critically important for the state to achieve its long-term climate goals. Critical industries shifting production of their products out of state with less stringent environmental regulations and then importing finished products results in higher emissions, not less.

CLECA regards the EITE program overall as a critical component of the state's climate policy and has been well-designed and largely successful at minimizing emissions leakage. Even so, some high energy and high trade exposure industries have entirely left the state, such as steel production. The competitive pressures on EITE industries operating in California have gotten more extreme since the EITE programs inception. For example, the price of industrial sector electricity has increased dramatically compared to neighboring states in the last decade (see Figure 1). These inexorably rising electricity rates include carbon compliance costs that are intended to be partially mitigated by the EITE indirect electricity allocation rebates to address leakage risk from electricity purchases.

Figure 1



Energy Information Agency (EIA) Industrial Sector $/MWh by Month
January 2010 – March 2024

CARB proposes to "transfer the process of providing value to industrial covered entities for the carbon costs in electricity purchases from CPUC to CARB" and asks for stakeholder feedback on, "Should CARB make this change?" (July 27th workshop, slide 50).

CLECA has identified a few concerns related to the proposed transition to CARB at this time. The transition to CARB may improve the transparency and simplicity of the calculation process. However, there may be unintended consequences associated with "directly allocating to industrial covered entities to address carbon costs associated with purchases electricity" rather than issuing a monetary credit or rebate in the current process (July 27th workshop, slide 49).

Such unintended consequences of a change to direct allocation for electricity related carbon cost offsets include accounting, tax, and transactional complexity. For a customer to offset the carbon costs embedded in electricity costs, any direct allocation would need to be monetized through participation in auctions or bilateral transactions. EITE customers eligible for the current credit structure for electricity offsets may have no experience monetizing direct allocation of carbon credits introducing new transactional cost and complexity, and potentially degrading the effectiveness of leakage mitigation. Even the subset of EITE eligible customers that currently receive a direct allocation of carbon credits may not have experience monetizing these credits, primarily utilizing direct allocated credits to offset compliance obligations. There may also be significant internal corporate accounting implications of receiving a direct allocation instead of a credit. In addition, there may be significant external financial reporting implications of receiving

carbon credits intended for later resale at volatile market pricing, including hedge accounting and market-to-market accounting implications. Finally, there may be tax implications of receiving a direct allocation for resale rather than an electricity related rebate.

CLECA encourages CARB to explore and address these considerations throughout this process to preserve the intended leakage mitigation value of the EITE electricity allocation. CLECA appreciates the opportunity to provide comments and looks forward to exploring these ideas in further detail with CARB staff.

Respectfully submitted,

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